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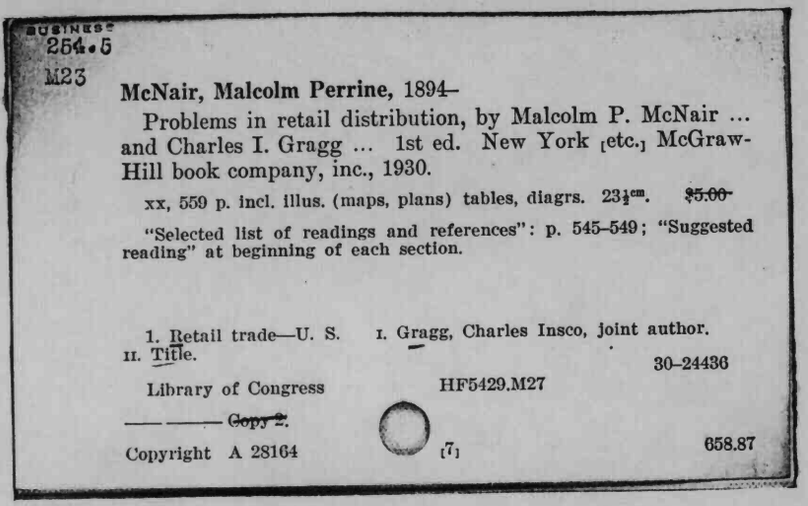

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PROBLEMS IN RETAIL DISTRIBUTION

Trade must not be entred into as a thing of light concern; it is called business very properly, for it is a business for life, and ought to be follow'd as one of the great businesses of life; I do not say the chief, but one of the great businesses of life it certainly is: trade must, I say, be work'd at, not play'd with; he that trades in jest, will certainly break in earnest; and this is one reason indeed why so many tradesmen come to so hasty a conclusion of their affairs.

. . . . . .

The sum of the matter is this, it is necessary for a tradesman to subject himself, by all the ways possible, to his business; his customers are to be his idols: so far as he may worship idols by allowance, he is to bow down to them, and worship them; at least, he is not any way to displease them, or shew any disgust or distaste at any thing they say or do; the bottom of it all is, that he is intending to get money by them; and it is not for him that gets money by them to offer the least inconvenience to them by whom he gets it; but he is to consider, that as Solomon says, The borrower is servant to the lender, so the seller is servant to the buyer.—DANIEL DEFOE, *The Complete English Tradesman*, First Edition, 1726.

PROBLEMS IN RETAIL DISTRIBUTION

BY

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PREFACE

Largely since 1918, business in the United States has entered on a period of distributive revolution paralleling certain aspects of the industrial development of the nineteenth century, and marking presumably a distinct phase in the transition of marketing from an unorganized small-scale tradesman or handicraft basis to a fully organized large-scale capitalistic basis. The recent years in this period particularly have witnessed significant changes in the field of retail distribution. Some of the more commonly familiar of these changes, such as the rapid rise of chain stores, the combination of department stores, and the emergence of various types of collective buying activities, have had an important influence on the distributive mechanism, especially through widening the scope of retail distribution to include a considerably larger sector of the field of marketing. These developments have been accompanied by changes in the size, form, organization, and functions of numerous retail enterprises. At the same time, beneath the surface in retail distribution and therefore less spectacular, though equally far-reaching in importance, there have been significant changes in management policies and methods, especially those giving rise to what may be termed "controlled" merchandising as contrasted with "speculative" buying and selling.

It is the purpose of this book to enable students to analyze, by a study of selected cases, the fundamental issues involved in the problems of retail distribution from the viewpoint of the retail merchant during this transitional period and to induce from these cases the principles underlying sound management policies. This book is intended primarily for the advanced student in marketing with special interest in retail distribution. The cases in this volume reflect the experience of retail institutions, including department stores, specialty stores, chain stores, unit stores, and other types of retail enterprise. This book and its companion volume, *Problems in Retail Store Management*, together are intended to replace *Problems in Retailing* (by David and McNair),

published by the A. W. Shaw Company in 1926. The present volume deals principally with the general policies of retail institutions and gives particular attention to those policies affecting relations with consumers, with competitors, and with manufacturers; whereas the companion volume, *Problems in Retail Store Management,* deals primarily with the more immediate policies and methods of internal retail store management and operation.

This book is divided into eleven sections. Section I deals with "Elements of Retail Profit." This arrangement is followed for two reasons: first, for the proper understanding of many of the later cases the student must be thoroughly acquainted with the mechanism of the retail profit and loss statement; second, under the existing social order, the success or failure of a retail enterprise in the long run is gauged by its profit and loss statement, and profit or loss as a measuring stick must therefore be an ultimate arbiter of policy. Section II, "Types of Retail Institutions and Types of Merchandise," takes quite definitely the consumer's point of view as to the kinds of merchandise to be handled by particular types of retail institutions. Section III, "Store Location," continues this point of view, inasmuch as consumers' buying habits in the long run must determine store location policies. Again in Section IV, "Store Layout and Merchandise Classification," consumers' expectations are a dominant factor. Section V, "Sales Policies," and Section VI, "Service Policies," each carry the consumer a step further in his relations with retail institutions and at the same time bring retail competitive problems into view, Section V being concerned largely with the contrast between "special event" selling and "regular" selling, and Section VI relating to those fundamental services which consumers tend to demand along with their merchandise. Section VII, "Merchandising," presents some of the problems of interpreting and satisfying changing consumer demand which lie at the core of the retail distributive task; here, naturally, conditions affecting the manufacturer as a source of merchandise also are taken into account. In Section VIII, "Pricing," the fundamental problems concern the conditions under which the forces of supply and demand, as modified by custom and institutional growth, operate to determine

retail prices. Section IX, "Brand Policies," deals with consumer buying habits and motives in relation to the long-run policies of both manufacturers and retailers for the promotion of goodwill through the identification of merchandise. In Section X, "Relations with Merchandise Sources," most of the problems relate to efforts made through various forms of collective buying activities, and otherwise, to straighten out lines of distribution and bring producers and retail distributors into closer relationships. Finally, Section XI, "Organization and General Policies," is concerned with the dynamic aspects of retail institutional development and presents some of the current problems growing out of the structural evolution of retail enterprise.

There is a long list of those to whom we are indebted for assistance in the preparation of this book and its companion volume. First of all, particular acknowledgment is due to those firms which contributed a substantial part of the funds expended in the gathering of cases; in this number are included L. Bamberger & Company, Newark; Conrad & Company, Inc., Boston; William Filene's Sons Company, Boston; Goldman, Sachs & Company, New York; the Halle Brothers Company, Cleveland; the J. L. Hudson Company, Detroit; S. H. Kress & Company, New York; the F. & R. Lazarus & Company, Columbus; R. H. Macy & Company, Inc., New York; the Rike-Kumler Company, Dayton; the E. T. Slattery Company, Boston; and the R. H. White Company, Boston.

Equally important, however, has been the assistance of the large number of retail merchants who have contributed liberally of their time and experience to provide the case material in this book, and whose names for obvious reasons cannot be mentioned here.

In the collection of these cases the field work was done primarily by Mr. Philip J. Stomberg and Mr. Clifford L. Haworth of the School's Marketing Research Staff, with assistance in writing and presentation from Miss Helen Eastman and Miss Marian V. Sears. The major tasks of organization, final editing, and manuscript preparation were in the capable hands of our secretary, Mrs. Anita C. Hersum.

Among our colleagues, those to whom we are indebted for numerous helpful suggestions include Professor Melvin T. Copeland, Professor Neil H. Borden, Professor Carl N. Schmalz, and Assistant Dean John C. Baker.

Finally, for their encouragement and interest we owe a particular debt to Dean Wallace B. Donham and Professor Clinton P. Biddle, and to our former colleague, Mr. Donald K. David.

MALCOLM P. McNAIR,
CHARLES I. GRAGG.

Cambridge, Massachusetts,
June, 1930.

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SECTION I
ELEMENTS OF RETAIL PROFIT

SUGGESTED READING

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———"Merchandising Arithmetic for the Buyer" (*National Retail Dry Goods Association Bulletin*, February, 1930).

NYSTROM, *Economics of Retailing* (3d Ed.), Vol. II, Chaps. II–IV.

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TAUSSIG, *Principles of Economics* (3d Ed. Rev.), Vol. II, Chaps. XLIX–L.

1. CALUMET COMPANY (A)

DEPARTMENT STORE—DEFINITION OF PROFIT[1]

The Calumet Company was one of the four principal department stores in a middle-western city with population of nearly 1,000,000, less than 24 hours distant from New York City. The Calumet store, which was located on the main shopping street, in a situation approximately as favorable as that of any competitor, carried in its 177 selling departments the lines of merchandise common to a general department store, including smallwares, yard goods, furniture and house furnishings, women's wearing apparel, ready-to-wear accessories, and men's and boys' clothing and furnishings. In its principal departments the store appealed to a low-medium class of trade. A bargain basement was operated selling primarily women's wearing apparel at prices lower than those prevailing in the upstairs departments. Of the leading competitors of the Calumet Company one was larger and two were smaller.

For the most part the Calumet Company owned the buildings which it used. Executives of the business were the principal holders of its stock.

[1] Professor F. W. Taussig has summarized the main trends of thought on the theory of business profits as follows: "On the theory of business profits there are two main trends of thought. One considers profits to be in essentials analogous to wages, and would reject any attempt at differentiation of business profits from the earnings of farmers, lawyers, physicians. Business profits are but one of the many forms of the remuneration of independent workers. Profits are, indeed, a peculiar kind of wages, and some special things are to be said about them; but they are not *sui generis*. Therefore, but three rubrics in distribution are to be set up—rent, interest, and wages. The other line of analysis separates profits from wages, and treats profits as a thing by itself; hence would consider distribution not under three heads, but under four—rent, interest, wages, and profits. The first sort of treatment appears in Marshall, Sedgwick, Nicholson, Taussig; the other, on the whole the more widely held, is found in the writings of Walker, Ely (especially in the latest edition of Ely's *Principles* at the hands of A. A. Young), Seager. Continental writers commonly take the second view, that of the Americans just cited. The English more often take the first; Marshall is representative of a long line of predecessors and contemporaries. The differences between the two sets, no doubt, are largely in the way of emphasis and exposition; they are different modes of exposition rather than different explanations of the substance of things. But they are none the less marked.

"As regards corporations, net earnings would be analyzed by the two schools in quite different ways. The item of interest, of course, would not give occasion for divergence of views. Part of the corporate earnings, under both, would be treated merely as interest on the capital invested; precisely as, in demarcating the business profits of an individual or partnership, interest on capital at the current or normal rate is to be deducted before one can make out what are the earnings of enterprise and management proper. But when it comes to stating precisely where to put

(Footnote continued on page 6.)

EXHIBIT 1

CALUMET COMPANY

Merchandise Statement for Year Ending January 31, 1929

Gross Sales			$26,981,377.60	
Returns and Allowances to Customers			2,631,667.15	
Net Sales				$24,349,710.45
Net Inventory of Merchandise at Beginning of Year	$2,923,393.10			
Net Purchases of Merchandise	16,386,072.88			
Inward Freight, Express, and Truckage	230,227.60			
Gross Cost of Merchandise Handled		$19,539,693.58		
Net Inventory of Merchandise at End of Year		2,773,941.00		
Gross Cost of Merchandise Sold			$16,765,752.58	
Cash Discounts Received on Purchases of Merchandise			704,704.32	
Net Cost of Merchandise Sold				$16,061,048.26
Alteration Costs				70,281.40
Total Merchandise Costs				16,131,329.66
Gross Margin				$8,218,380.79

EXHIBIT 2

CALUMET COMPANY

Net Gain Statement for Year Ending January 31, 1929

Gross Margin					$8,218,380.79
Total Expense					8,566,838.75
Net Operating Loss					$348,457.96
Sundry Revenue Net				$6,699.32	
Interest and Rentals Earned					
Interest on Owned Capital Invested in Business			$379,211.42		
Total Net Rent Earned					
Owned Real Estate Used in Business					
Rentals Earned	$1,221,954.31				
Less Actual Real Estate Charges	855,951.11	$366,003.20			
Owned Real Estate Not Used in Business					
Rentals Received	$1,602.91				
Less Actual Real Estate Charges	20,832.29	19,229.38*	346,773.82		
Total Interest and Rentals Earned				725,985.24	732,684.56
Total Net Gain					$384,226.60
Provision for Federal and State Income Taxes				$ 57,635.00	
Dividends				210,520.00	268,155.00
Surplus					$116,071.60

* Figures shown in red.

The merchandise and net gain statements of the Calumet Company for the year ending January 31, 1929, were as shown in Exhibits 1 and 2; the expense statement as in Exhibit 3.

EXHIBIT 3

CALUMET COMPANY

Expense Statement for Year Ending January 31, 1929

Payroll			
Executive Salaries		$ 204,000.00	
Other Salaries and Wages		4,238,765.53	
Total Payroll			$4,442,765.53
Rentals			
Rentals Paid		$ 88,315.00	
Interest on Mortgage		362,055.80	
Taxes		231,343.94	
Repairs		33,779.56	
Depreciation		215,605.31	
Depreciation on Improvements		6,449.61	
Insurance		6,716.89	
Interest on Owner's Equity in Real Estate		366,003.20	
Total Rentals			1,310,269.31
Total Advertising			1,065,972.13
Interest			
Interest Paid on Borrowed Capital		$ 27,482.15	
Interest on Owned Capital	$379,211.42		
Less Interest Received on Installment Accounts	$82,817.61		
Interest Received from Bank	14,700.78		
Income from Investments	1,458.65	98,977.04	
Net Interest on Owned Capital		280,234.38	
Total Interest			307,716.53
Other Expense			1,440,115.25
Total Expense			$8,566,838.75

What profit, if any, did the Calumet Company make in 1928?

(Footnote continued from page 5.)

one's finger on the disputable item—earnings of enterprise and management—the divergence in treatment becomes sharp.

"The first school, while lumping all the net earnings together in case of the individual or partnership, would separate them—carve them up, so to speak— in case of a corporation. The 'business profits' of a corporation are received partly by the stockholders, partly by the executives. What the stockholders get over and above interest (that is, dividends greater than what they could have got by merely lending their capital to others)—this is in the nature of profits. But the salaries of the executive managers are also a part of the 'profits'—that is, they are part of the earnings of enterprise as well as of management. The fact that owners and managers are different persons is but an incidental circumstance; the two combine in earning a joint return which, tho divided between them, is homogeneous in character.

"The second school, on the other hand, would separate the total earnings in all cases, for individuals and firms as well as for corporations. Its adherents would distinguish throughout between earnings of management proper, which are simply wages, and the earnings or rewards of enterprise; the latter only are business profits. The salaries of corporate executives are wages, like any other wages. They are of the same nature and are determined by the same causes as the wages of superintendents, accountants, lawyers, engineers. The business profits of corporations are received by the stockholders and these only. Their dividends (so far as the rate is in excess of the interest rate) are alone the rewards of enterprise, risk, judgment. In the case of a firm, it happens, both wages of management and earnings of enterprise go to the same person, and the whole of the lump sum seems to be a homogeneous thing. But it is not so. The proper differentiation—that consonant with sound economic analysis—appears in the case of the corporation. There the essentially heterogeneous character of the earnings becomes plain. The executives receive wages; the business profits go to the stockholders."—*Quarterly Journal of Economics*, November, 1925, pages 40–42.

2. HEPPLEBURN & WHITE

UNIT SHOE STORE—PERCENTAGE OF MARK-UP

Heppleburn & White operated a shoe store in a small town in Montana. The merchandise sold included shoes for men, women, and children; slippers; rubbers; and stockings. At the end of the fiscal year 1929, the firm's books showed the following figures: net cost of inventory of merchandise at the beginning of the year, $22,816; net cost of inventory of merchandise at the end of the year, $28,047; net sales, $58,621; purchases of merchandise at net cost, $44,760; total expense, $18,140.

What were the percentages[1] of gross margin, net profit or loss, and total expense for the year?

[1] The following letter was written by the Harvard Bureau of Business Research in answer to an inquiry regarding the basis to be used in computing percentages of expense in a retail business:

"We have received your letter of October 7 inquiring in regard to the practice of figuring expenses on selling price rather than on cost price.

"In the course of our cost research work we have found numerous retailers who were using the cost basis. For our own purpose of comparing the results obtained by different stores, the selling-price basis has proved simple and reliable. Many retailers, furthermore, prefer to use net sales as 100% in figuring percentages because expenses are paid out of receipts for merchandise and that basis appears to be the natural one for expenses. Occasionally we have found some small unit stores making the mistake of figuring expense percentages on net sales and mark-up on cost without realizing that they were using different bases. This, of course, is an error that would not occur in any well-managed store. We have found a number of department stores, however, where it is considered that the use of the net-sales basis is an advantage in planning sales and purchases and in budgeting expenses."

In an interview, later, the recipient of this letter advanced the following arguments for using cost as a basis:

1. The use of expense percentages based on cost does not affect the planning of sales.

2. The expenses of selling merchandise are not paid out of the receipts from the merchandise; most of the expenses are paid before the merchandise actually is sold —out of capital.

3. It is easier for buyers to figure the mark-up when it is based on cost than when it is based on selling price.

4. When mark-downs are taken in a department and the merchandise is sold for less than was planned, with the retail basis the expense percentage is increased, whereas actually the expenses have not increased but the gross margin has decreased.

5. Cost figures represent more accurately than sales figures the number of articles sold. Since most items of expense fluctuate in accordance with the volume of transactions more than in accordance with sales in dollars and cents, the cost basis is preferable to the retail basis.

6. Since the expense percentages are greater on the cost basis than on the retail, an increase in expense is more noticeable to the buyer.

7. When original mark-up and subsequent mark-downs are expressed as percentages of cost, the maintained mark-up can be found by subtracting one percentage from the other. When these percentages are based on sales, this cannot be done.

8. Cost-keeping has been developed to a higher degree in manufacturing than in retailing, and there the uniform practice is to use cost as the basis.

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8. Cost-keeping has been developed to a higher degree in manufacturing than in retailing, and there the uniform practice is to use cost as the basis.

How should these figures have been used in determining the average mark-up to be placed on the merchandise? For instance, if a pair of men's shoes, typical of the general line carried in quality and style, was purchased by the firm for $7, what should have been the selling price?

What was the rate of stock-turn for the year?

3. COLON COMPANY

GENERAL MERCHANDISE STORE—DETERMINATION OF GROSS MARGIN

The Colon Company, operating a general store in Indiana, sold men's shoes and clothing, dry goods, hardware, and groceries.

At the end of the fiscal year, December 31, 1924, the company's books showed the following totals for the year:

Salaries & Wages, Rent, and General Expense	$ 59,310.19
Returns and Allowances to Customers	10,602.06
Purchases of Merchandise at Billed Cost	195,811.78
Merchandise Returned to Wholesalers	13,291.00
Net Inventory of Merchandise, December 31, 1923	71,415.10
Inward Freight, Express, and Cartage	2,333.44
Gross Sales	267,438.04
Inventory of Merchandise at Billed Cost, less Discounts, December 31, 1924	64,971.30
Cash Discounts Received on Purchases of Merchandise	3,553.82
Depreciation of Merchandise, December 31, 1924	5,156.20

What was the percentage of gross margin for 1924?

4. BOSWELL & STURGIS

DEPARTMENT STORE—CASH DISCOUNTS AND LOADING

In the Boswell & Sturgis department store, with annual sales of approximately $14,000,000, the practice of "loading" had been a feature of the financial policy since 1912. Each selling department was charged, or "loaded," with the difference between the cash discount which the buyer actually secured on merchandise purchased and a standard rate of discount established for all

departments at 7% of the loaded cost. If the billed price on an invoice of merchandise for the men's clothing department was $100, for example, and the buyer secured a cash discount of 4% from the manufacturer, the cash discount account for the store as a whole was credited with $7.22 and the merchandise was charged to the men's clothing department at $103.22, on which figure the mark-up was based.

Early in 1923 the question came up as to whether the practice of loading should be discontinued. The immediate occasion was the complaint of several buyers that loading tended to penalize their departments. For instance, the customary cash discount in the furniture trade was 4%, and on flannels and blankets it was 2.5%. With the required cash discount set at 7%, these departments frequently were unable to show any net profit, although on account of the combined loading and discount a profit for the store as a whole was earned on their operations. The buyers directly concerned were of the opinion that this situation was undesirable.

There appeared to be five possible methods of procedure open to the Boswell & Sturgis store:

1. The practice might be continued of loading on a uniform 7% basis as in the past.
2. Loading might be continued with the required percentage varied according to departments; for example, hosiery, 2%; ribbons, 6%; rugs, 4%; and so on, in conformity with established trade customs.
3. Cash discounts might be treated as a capital earning without loading.
4. Cash discounts might be treated as a merchandise earning.
5. In connection with either of the two preceding plans, a standard required discount rate might be established for each department, to be used as a measure of the buyer's efficiency and not to affect in any way the figures at which merchandise should be charged to the department.

A consideration of uncertain weight was the attitude of the Federal tax authorities. In Article 1583 of Income Tax Regulations 62, cost was defined as follows:

1. In the case of merchandise on hand at the beginning of the taxable year, the inventory price of such goods.
2. In the case of merchandise purchased since the beginning of the taxable year, the invoice price less trade or other discounts, except strictly cash discounts, approximating a fair interest rate, which may

be deducted or not at the option of the taxpayer, provided a consistent course is followed. To this net invoice price should be added transportation or other necessary charges incurred in acquiring possession of the goods.

Office Decision 326 of the Treasury Department, on the other hand, read as follows:

> Taxpayers who as a matter of settled practice do not deduct cash discounts from purchases, but who take the merchandise purchased into their inventories at invoice price (less trade or other discounts other than strictly cash discounts), carrying the discounts in a discount account, may not, in valuing their closing inventories for income-tax purposes, deduct from the invoice price of the merchandise on hand at the close of the taxable year the average amount of cash discount received on such merchandise; neither may the amount of cash discount earned, to be reported as income, be decreased by an amount representing the estimated cash discount received on merchandise on hand at the close of the year.

The buyer for the men's clothing department in the Boswell & Sturgis store purchased 60 suits at a billed cost of $32 each. The terms appearing on the face of the invoice were 4% 10 days, net 30 days. The cash discount of 4% was taken, and the suits were marked to sell at $48 each. At the end of the season 45 suits had been sold, 15 being left in stock.

In accordance with Office Ruling 326, what would have been the gain, before expense, of the men's clothing department and of the store as a whole in dollars and cents and as a percentage of net sales on this transaction in each of the following situations: (1) cash discount treated as a capital earning without loading; (2) merchandise cost figures loaded on a 7% basis; (3) cash discount treated as a strictly merchandise earning?

What policy should Boswell & Sturgis have adopted with respect to cash discounts and loading?

5. BAYROW COMPANY

GROCERY CHAIN—DETERMINATION OF STORE PROFIT

The Bayrow Company, which operated approximately 600 retail grocery stores with sales of over $20,000,000 in 1928, determined monthly the direct profit obtained in each store. Only such expenses as rent, salaries and wages of the store manager and his

assistants, electricity, telephone, ice, and supplies, which were incurred directly by a store, were considered in the calculation of the direct profit of that store. After the direct profit had been determined, a charge of 6% of the store's sales was made to cover central office, warehouse, supervisory, and other overhead expenses.

Shipments of merchandise to the stores were charged to the stores at cost and retail. Deliveries were made either from the warehouse or by the vendors directly to the stores. The cost and retail values of warehouse deliveries were recorded by the use of a tabulating card system. Vendors who delivered merchandise directly to the stores submitted to the central office invoices for each individual delivery. The company computed the cost and retail value of each invoice of this character and charged the store with the amounts. Physical inventories were taken monthly at retail prices by the district superintendent with the assistance of the store manager. A district superintendent supervised the operations of from 15 to 20 stores. A book inventory at retail was computed for every store at the end of each month. Deliveries to the store at retail were added to the beginning inventory at retail; and from this total, sales and other credits to the store's merchandise account were deducted to arrive at the ending book inventory. The ending book inventory was corrected to agree with the physical inventory. The difference between the ending book inventory and the physical inventory was charged against or credited to the store's direct profit. The corrected ending book inventory for one month became the beginning book inventory for the following month.[1] The district superintendents reported daily cash register readings and cash receipts.

The merchandise account of a store was credited with allowances, unsalable merchandise, and adjustments. Allowances represented changes in price which enabled a store to meet competition peculiar to its locality or to sell large quantities of merchandise to individual customers at lower than regular prices. Unsalable merchan-

[1] In the small retail grocery store of J. F. Houston, located in a middle-western town, net retail sales for the six months ending June 30, 1929, were $21,730, and net purchases at cost amounted to $18,300. At the beginning of the period the net cost inventory of merchandise had been $6,100.

Although the proprietor usually took inventory only once each year, he wished to have some means of determining each month how much profit he was making. The average original mark-up was thought to be approximately 20% of the retail price; on some articles, however, the rate was much lower. Also, special bargains frequently were offered of goods on which the mark-up was not more than 10% to 12%.

dise included goods which had become unfit for sale for some reason such as spoilage. Adjustments represented price changes authorized by the central office, consisting primarily of changes in price for promotional purposes, such as week-end special sales.

The gross margin on sales for each store during a month was computed by applying to the monthly sales the cumulative mark-up percentage on shipments to that store during the month.

On June 1, 1929, the physical inventory at retail of Store 437 was $2,278.07. Shipments to the store from the warehouse during June totaled $2,326.11 at cost and $3,080.12 at retail. Direct shipments from vendors were $1,191.69 at cost and $1,405.84 at retail. During June, sales were $3,737, allowances $47.83, unsalable merchandise $58.65, and adjustments $92.54. The direct expenses of the store for June were as follows: rent $70, manager's and assistant's salaries $316.24, ice $16.34, electricity $3.62, telephone $4.30, and supplies $12.36. At the end of June, the physical inventory at retail of Store 437 was $2,790.34.

What was the direct profit of Store 437 for the month of June, 1929?

6. KENNECOTT COMPANY

DEPARTMENTIZED SPECIALTY STORE—ADVISABILITY OF RECORDING MARK-DOWNS

The Kennecott Company, a metropolitan specialty store in Baltimore, maintained the following departments: coats, skirts, suits, dresses, costumes, blouses, furs, waists and sweaters, hats, and hosiery. This store specialized in the sale of merchandise that was distinctive in character. Over 80% of sales were made to customers who had charge accounts.

In several departments of the Kennecott Company's store the original mark-up placed on merchandise commonly was from 40% to 50% of the selling price. Before the end of the season, however, it frequently was necessary to make drastic reductions in retail prices in order to clean out stocks of slow-moving merchandise and avoid carrying these goods over into the next season. In some instances it was necessary to reduce retail prices in order to meet the prices of competing stores, although for the most part the Kennecott Company endeavored to sell merchandise of a class that did not come into direct competition with the

goods sold by most of the other specialty and department stores in the city. Occasionally, also, retail prices were lowered as a result of price reductions by manufacturers or wholesalers; retail

EXHIBIT 1

KENNECOTT COMPANY

Profit and Loss Statement for Year Ending December 31, 1924
(Net Sales = 100%)

Gross Sales		$531,189.72		
Returns and Allowances to Customers		58,651.67		
Net Sales			$472,538.05	100.00%
Net Inventory of Merchandise at Beginning of Year	$ 48,389.76			
Net Purchases of Merchandise	333,877.62			
Inward Freight, Express, and Truckage	2,274.98			
Gross Cost of Merchandise Handled		$384,542.36		
Net Inventory of Merchandise at End of Year		47,421.82		
Gross Cost of Merchandise Sold		$337,120.54		
Cash Discounts Received on Purchases of Merchandise		26,314.88		
Net Cost of Merchandise Sold		$310,805.66		
Alteration Costs		19,855.85		
Total Merchandise Costs			330,661.51	69.98
Gross Margin			$141,876.54	30.02%
Total Expense			154,401.76	32.67
Net Loss			$ 12,525.22	2.65%

mark-downs for this reason had been especially large during periods of business depression, such as that experienced in 1921.

Reductions in retail prices also were necessitated in the case of merchandise sold to employees of the Kennecott Company, who regularly received a 20% discount from the marked selling prices. Likewise a special 10% discount was granted to dressmakers, clergymen, and students.

Up to 1925 no record of mark-downs was maintained in the Kennecott Company's store. Executives of the company variously estimated the volume of mark-downs at from 5% to 15% of the total net sales volume. The buyer in charge of each department was allowed to take mark-downs at his own discretion. To keep a permanent record of such mark-downs by departments would have necessitated additional paper work amounting in the aggregate to somewhat less than half the time of one clerical employee. The general manager of the firm did not consider mark-down records essential, inasmuch as figures on the cost of merchandise sold were accumulated daily by departments by the device of recording, in the course of the sales audit, the cost of

each piece of merchandise sold. In this way, daily gross margin figures were made available. A physical inventory was taken twice a year, at which times merchandise in stock was valued at cost or market whichever was lower.

The profit and loss statement of the Kennecott Company for the year ending December 31, 1924, was as shown in Exhibit 1.

Should the Kennecott Company have undertaken to account for mark-downs?

7. KILKENNY COMPANY

DEPARTMENT STORE—DETERMINATION OF MARK-UP

In the latter part of November, 1927, the buyer for the men's overcoat department of the Kilkenny Company, a general department store, in consultation with the assistant divisional merchandise manager for men's wear, began making plans for the spring season of 1928. These plans included figures for expected monthly sales, mark-downs, end-of-month stocks, monthly purchases, and average original mark-up.

For the spring seasons of 1925, 1926, and 1927, the total expenses of this department, including prorated indirect expenses, had averaged 30.5%; mark-downs had been 7.3%, discounts to employees 0.8%, shortages 1.3%, customers' returns of merchandise 5.6%, and alteration costs 0.5%. All these figures were percentages of net sales. Over the same period net profit, exclusive of the normal cash discount of 2%, had amounted to 1.2% of the net sales of this department; and the buyer was satisfied to maintain the same rate of profit for the spring season of 1928.

What average original mark-up percentage should have been planned for the overcoat department for the spring season of 1928?

8. E. R. DADE

UNIT JEWELRY STORE—ANALYSIS OF OPERATING RESULTS

In January, 1928, Mr. E. R. Dade submitted the annual report on his retail jewelry business to the Harvard Bureau of Business Research. At that time he was disturbed by the decline in the rate of stock-turn which had been in evidence since 1923. Mr. Dade's store was favorably located in an eastern industrial

city with population of about 125,000. The company's sales were chiefly in medium- to high-grade merchandise. Only a small stock of novelty jewelry was carried. Ninety-one per cent of sales were made for cash; 9% were on credit. No installment sales were made. The Dade store competed with the other two jewelry stores in the city.

The trial balance which the proprietor of the Dade store submitted to the Bureau was as shown in Exhibit 1.

EXHIBIT 1

E. R. DADE

Trial Balance—December 31, 1927

Item	Dr.	Cr.
Cash	$ 1,400.00	
Accounts Receivable, Net	1,184.75	
Merchandise Inventory, January 1, 1927	25,120.00	
Inventory—Repairing Supplies, January 1, 1927	500.00	
Marketable Securities	3,000.00	
Store and Office Equipment	1,700.00	
Real Estate (Not Used in the Business)	20,000.00	
Accounts Payable		$ 2,348.42
Proprietor's Balance, January 1, 1927		47,864.89
Gross Sales of Merchandise		53,917.92
Repair Department Receipts		11,565.89
Cash Discounts Taken		1,239.69
Proprietor's Salary	2,080.00	
Proprietor's Drawings	8,841.94	
Sales Returns	162.95	
Purchases of Merchandise	33,260.28	
Purchases of Repair Materials and Supplies	1,655.00	
Inward Freight, Express, and Cartage	78.39	
Salaries and Wages	9,294.49	
Advertising	1,672.47	
Boxes and Wrappings	1,720.67	
Delivery Expense	28.20	
Telephone and Telegraph	149.80	
Postage and Office Supplies	275.53	
Rent	3,000.00	
Light and Heat	645.57	
Taxes	261.45	
Insurance	255.15	
Repairs to Store Equipment	245.40	
Interest	24.41	
Miscellaneous Expense	296.30	
Losses from Bad Debts	84.06	
	$116,936.81	$116,936.81

The balance sheets as of the beginning and end of the fiscal year 1927 were as shown in Exhibit 2.

EXHIBIT 2

E. R. DADE

Balance Sheets as of January 1, 1927, and December 31, 1927

	January 1, 1927		December 31, 1927	
Assets				
Current Assets				
Cash on Hand and in Banks	$ 1,406.00		$ 1,400.00	
Accounts Receivable from Customers	1,080.50		1,184.75	
Net Inventory of Merchandise	25,120.00		24,906.09	
Net Inventory of Repairing Supplies	500.00		655.00	
Marketable Securities	3,000.00	$31,106.50	3,000.00	$31,145.84
Other Assets				
Store and Office Equipment	$ 1,000.00		$ 1,700.00	
Real Estate (Not Used in the Business)	19,000.00	20,000.00	20,000.00	21,700.00
Total Assets		$51,106.50		$52,845.84
Liabilities				
Current Liabilities				
Notes Payable	$ 1,500.00		None	
Accounts Payable	1,741.61	$ 3,241.61	$ 2,348.42	$ 2,348.42
Proprietorship		47,864.89		50,497.42
Total Liabilities and Proprietorship		$51,106.50		$52,845.84

In connection with these figures the proprietor explained that he allowed himself a salary of $40 a week, which was fully drawn by the end of the year, and that in addition he paid his personal bills by store checks, these payments being considered as drawings against profits and shown in the trial balance as "Proprietor's Drawings." The proprietor's son was employed in the store at a salary of $30 a week; and there was one clerk, who received $18 a week. Each of the two men employed in the repairing department received a salary of $50 a week.

On reasonably secure long-time investments the local rate of interest was 5½%. The proprietor was of the opinion that the expenditures for repairs to store equipment and fixtures in 1927 made unnecessary any allowances for depreciation.

The merchandise accounts of the Dade store were not departmentized currently except for a record of sales of silverware distinct from all other merchandise. No departmental record of purchases was kept. Inventory figures were available only after the annual physical inventory. The figures applying to the

repairing department were separated at the close of the fiscal year when the annual report was to be compiled. At that time the proprietor divided the various items of expense between the repairing department and the merchandise departments.

The repairing department bore the following charges: Advertising, Postage, Rent, Taxes, Insurance, and Miscellaneous Expense, 20% of the total for the store; Boxes & Wrappings, Delivery Expense, Telephone & Telegraph, and Repairs & Store Improvement, 10% of the total for the store; and Light & Heat, 25% of the total for the store. The salary of the proprietor was distributed 20% to the repairing department and 80% to the merchandise departments. The merchandise departments were charged with 37% of all repairing department wages. The charges against the repairing department for wages of regular and special employees in 1927 amounted to $5,958.67. This distribution of expenses was made rather arbitrarily, but roughly according to the proprietor's judgment as to the proper basis for each item.

In submitting his figures, Mr. Dade requested a comparative analysis of the elements of strength and weakness in his business.

SECTION II

TYPES OF RETAIL INSTITUTIONS AND TYPES OF MERCHANDISE

SUGGESTED READING

Bureau of Research and Information of the National Retail Dry Goods Association, *Survey of Leased Departments—Terms and Contracts.*

Chamber of Commerce of the United States, *Retail and Wholesale Trade of Eleven Cities.*

Controllers' Congress of the National Retail Dry Goods Association, "Mail Order or Personal Service Methods" (*Report and Digest of the Proceedings, Sixth Annual Convention*—1925, pp. 140–142).

COPELAND, *Principles of Merchandising*, Chaps. II–IV.

DARBY, *The Story of the Chain Store.*

FREDERICK, *Selling by Telephone.*

FRI, *Retail Merchandising*, Chap. I.

HAYWARD & WHITE, *Chain Stores* (3d Ed.), Chaps. I–IV, XXIX–XXXIV.

KNAPP, *Store Management and Business Organization* (Alexander Hamilton Institute, Modern Merchandising Texts, Vol. II), Chap. II.

LINDQUIST, *A Study of Sales, Margins, Expenses, and Profits in a Group of Chicago Meat Markets for the Year 1928.*

MAYNARD, WEIDLER, & BECKMAN, *Principles of Marketing*, Chaps. III, V–VII.

National Bureau of Economic Research, Inc., *Recent Economic Changes in the United States*, Vol. I, Chap. V.

Northwestern University Bureau of Business Research, Bulletins for Retail Meat Stores.

NYSTROM, *Economic Principles of Consumption.*

———*Economics of Retailing* (3d Ed.), Vol. I; Vol. II, pp. 3–5.

SECRIST, *The Widening Retail Market.*

SHERMAN, *Merchandising Fruits and Vegetables.*

SMITH & Others, *The Retailer of Today and Tomorrow* (American Management Association, Marketing Executives' Series, No. 65).

United States Department of Commerce, *Census of Food Distribution* (Part I of the Louisville Grocery Survey).

University of Chicago Bureau of Business and Economic Research, Studies in the Packing Industry.

1. HARVARD COOPERATIVE SOCIETY, INC.

DEPARTMENTIZED BOOK, STATIONERY, AND CLOTHING STORE—ESTABLISHMENT OF WOMEN'S SPECIALTY APPAREL SHOP[1]

In the summer of 1928 the manager of the Harvard Cooperative Society, Inc., was approached by a real estate agent with an offer of a site for a women's specialty apparel shop in Harvard Square. The proposed shop would sell sportswear, such as stockings, underwear, dresses, coats, sweaters, and hats, for women and misses. No shoes would be carried. The site of the proposed shop had dimensions of 18 by 50 feet in a building near but not physically connected with the main store of the Society.

Harvard Square, Cambridge, where the main store of the Harvard Cooperative Society was located, was about three miles from the center of Boston. It was the center of a high-class residential district which had grown up around Harvard University. Three educational institutions for girls were located near Harvard Square, namely, Radcliffe College, the Sargent School of Physical Education, and the Lesley School, a training school for kindergarten teachers. In addition to being a neighborhood center, Harvard Square was also an important junction point for traffic to and from Boston, both automobile and street railway. Here, at the terminus of the Cambridge subway, passengers transferred to surface cars or busses for outlying parts of Cambridge and for Watertown, Belmont, Arlington, Somerville, and Allston, residential districts adjoining Cambridge. Thus Harvard Square was a center from which transit lines radiated in all directions. By subway, it was only eight or ten minutes from the center of the Boston shopping district. Automobile traffic followed routes roughly similar to those of the city transit system.

The Harvard Cooperative Society, Inc., founded in 1882, had been organized to meet the needs of students in Harvard University. Membership in the Society was open to students, alumni, and persons otherwise connected with Harvard University or with Radcliffe College; many people, however, who were not members were customers of the store. Dividends, amounting to 10% of cash

[1] See case of the Flagg Company, 2 H.B.R., 292.

purchases and 8% of charge purchases, were paid to members after the close of the fiscal year. For the fiscal year ending June 30, 1928, sales of the Harvard Cooperative Society, Inc., in its main store and its Massachusetts Institute of Technology and Harvard Business School branches amounted to $1,298,000, and net profits were $108,000. For the same period the membership was 9,600.

The distribution of sales by departments in the main store for the fiscal year 1927–28 was as shown in Exhibit 1.

EXHIBIT 1

HARVARD COOPERATIVE SOCIETY, INC.

Sales in Main Store by Departments
Year Ending June 30, 1928

Men's Furnishings	$ 168,500
Ready-to-wear Clothing	67,000
Tailoring	69,000
Stationery	216,000
New and Second-hand Textbooks	139,500
Other Books	157,500
Furniture	93,000
Hardware	26,000
Coal and Wood	49,000
Laundry	62,500
Total	$1,048,000

The operating results of the business as a whole for the fiscal year 1927–28 were as shown in Exhibit 2. Sales of the Society had increased 46% in the preceding three years.

EXHIBIT 2

HARVARD COOPERATIVE SOCIETY, INC.

Operating Statement for Year Ending June 30, 1928
(Net Sales = 100%)

Net Sales	$1,298,000	
Gross Margin		28.03%
Expenses by Functional Groups		
Total Administrative and General	4.67%	
Total Occupancy	4.54	
Total Publicity	1.35	
Total Buying	2.23	
Total Selling	5.81	
Total Delivery	1.12	
Total Expense		19.72
Net Profit		8.31%
Stock-turn (times a year)		
Based on Beginning and Ending Inventories		4.3
Based on Monthly Inventories		4.6

The real estate agent stated that in view of the established reputation of the Harvard Cooperative Society he was willing to share with it the risk of the proposed new store. So confident was he of the Society's ability to operate this shop successfully that he offered to lease it without a fixed rental, charging as rental the percentage of net sales which the Harvard Bureau of Business Research had ascertained to be the average for stores of a similar type.[1] A five-year lease was planned. Room was available for expansion if needed. The agent believed that a demand existed for such a shop in Harvard Square. Approximately 1,100 students attended Radcliffe College, about 400 were enrolled at the Sargent School, and 350 at the Lesley School. In addition to these students, the families of Harvard alumni and married students living near Harvard Square might patronize the shop.

The manager believed that sales of women's sportswear probably would not exceed $60,000 during the first year.[2] He estimated that at least three or four salespersons at salaries of $25 to $40 a week would be required, with a buyer at $4,000 or $5,000 a year. Advertising expense probably would amount to $1,500.

In 1928 only one store in Harvard Square sold women's wear; this store specialized in juniors' and children's clothing rather than in women's and misses' wear. During the past year, the Harvard Cooperative Society had received only three or four calls for silk stockings and five or six inquiries for women's gloves. Women's gloves were carried in stock for the Christmas trade. In the opinion of the manager, a women's wear store should be in a large shopping center. He was aware, however, that about two years before this time the E. T. Slattery Company, a Boston specialty apparel store, had opened a branch at Coolidge Corner, a neighborhood trading center. This branch was commonly believed to be successful; it apparently appealed to shoppers because of its convenience and informality and because of its freedom from the traffic congestion encountered in the downtown Boston shopping area.

Should the Harvard Cooperative Society, Inc., have opened the proposed women's sportswear department?

[1] In 1927 the common figure for rentals for specialty stores with sales under $1,000,000 was 4.8% of net sales. Harvard University Bureau of Business Research, Bulletin No. 74, *Operating Expenses of Department Stores and Departmentized Specialty Stores in 1927*, page 37.

[2] In 1927 the average sales per square foot of selling space for specialty stores with sales under $1,000,000 were $50. Ibid., page 38.

2. LAKEWOOD COMPANY

DEPARTMENTIZED SPECIALTY STORE—OPERATION OF MEN'S FURNISHINGS DEPARTMENT

The Lakewood Company had operated its men's furnishings department at a profit ever since the department was opened for the Christmas trade in December, 1926. In the spring of 1929 the question arose as to whether the company should enlarge this department by adding a stock of men's shirts.

The Lakewood Company was the largest women's specialty store in an eastern industrial city, which was the trading center for a metropolitan area with a population over 1,000,000. The store appealed to customers on a quality and style basis rather than on a price basis. It carried the usual lines of women's merchandise—dresses, coats, furs, hosiery, lingerie, shoes, infants' and children's wear, toilet goods, handbags, and jewelry. In addition it operated a luggage department, a gift shop, a circulating library, and the men's furnishings department. Annual sales were over $3,000,000.

The men's furnishings department occupied a space of approximately 160 square feet in the center front of the first floor of the store, between the two front doors. It had been opened to sell neckties for the Christmas trade; but it had since been extended to carry gloves, socks, handkerchiefs, dressing gowns, pajamas, and scarfs. The stock of dressing gowns was quite incomplete in the spring of 1929, and the management expected to discontinue their sale. Only the better grades of merchandise were sold. For instance, the lowest price for hosiery was $2; ties were priced between $2 and $5; and pajamas were sold at $5 and up. Most of the sales were made to women. The sales in 1928 had amounted to $44,000, of which $22,000 had been made in December. The average original mark-up over net cost had been approximately 38.5% of retail; mark-downs had averaged 3% of sales. Since the general manager of the store had the necessary knowledge and experience and enjoyed buying for the department, no buyer had been needed. One salesperson was able to care for the customers in the department, except during the Christmas shopping period. Stocks varied between $15,000 and $20,000 at retail.

The manager thought that some customers went out of their way to purchase merchandise from the Lakewood Company.

For instance, recently a customer had purchased a number of shirts at a neighboring department store and then had come to the Lakewood Company to purchase ties to go with these shirts. She had chosen four ties at a total price of $17.

The manager estimated that a complete stock of shirts would be 64 dozen. It would be necessary to carry shirts in sizes 14, 14½, 15, 15½, 16, and 16½, with 3 sleeve lengths in each size, 33, 34, and 35. It would also be necessary to carry shirts both with and without collars attached. The manager estimated that the stock should comprise 34 dozen white shirts and 30 dozen colored shirts. He expected to sell shirts at prices ranging from $3 to $5.

If the men's furnishings department were to carry shirts and stay in the same location, it would be crowded, since the shirts would occupy about two-thirds of the shelf room where reserve stocks were kept. Also, there would be very little room for display. It was suggested that the store's gift shop, which was located in one of the front corners immediately across the aisle from the men's furnishings department, might be moved to the basement, near the luggage department, and a men's shop opened in this space of about 400 square feet. This section of the store already was distinctly separated from the remainder of the store by semi-partitions, which had been placed around the gift shop; and, since the section was near the front door, the manager thought it might be possible to attract men into the department.

Some of the other executives advised against the addition of shirts, chiefly because of the large stocks needed and the keen price competition. The Lakewood Company, however, had been successful in keeping the sale of other articles in the men's furnishings department on a quality and style basis rather than on a price basis, and the manager thought it possible to sell shirts in the same way. If the new location were used, however, because of the increased space an additional salesperson probably would be required. Furthermore, additional buying duties would be placed on the general manager. If he did not have the time to buy shirts in addition to his general managerial duties, it would be necessary to hire a buyer for the department, since the other buyers in the store did not have the knowledge and qualifications needed for such work.

Should the Lakewood Company have added men's shirts to its men's furnishings department?

3. JORDAN MARSH COMPANY

DEPARTMENT STORE—OPERATION OF MEN'S CLOTHING STORE

On May 6, 1922, *The Boston Herald* published on its first page an announcement of the purchase of A. Shuman & Company's business by the Jordan Marsh Company. It was stated that since Mr. E. A. and Mr. S. E. Shuman had decided to retire from business, their store had been taken over by the Jordan Marsh Company, which would operate it as a high-class men's and boys' outfitting establishment. The announcement continued as follows:

"There will be no material changes in personnel, and the Shuman customers will see the same faces and be greeted by the same staff, and will find the same high-grade quality of merchandise as in the past.

"The walls between the Shuman store and the Jordan Marsh Company's store will not be removed, because the intention of the Jordan Marsh Company is to run a specialty store for men and boys. The only connection between the two stores will be doorways for customers who wish to pass from one store to the other and for the access of executives and others in the administration of the business.

"Any changes which may be made in the future in amalgamating the Jordan Marsh Company's men's and boys' business with that of A. Shuman & Company will be made in the most careful manner and after a careful consultation with the present Shuman management, as it is the keen desire of the Jordon Marsh Company to retain the goodwill and patronage of all the Shuman customers.

"The addition of this Shuman corner, approximately 100,000 square feet of floor space, to the business of the Jordan Marsh Company will enable that firm to have enlarged space and improved facilities for handling its rapidly increasing business.

"This increased space not only will give more room and better shopping facilities for the men's and boys' departments, but will afford room for much-needed expansion of the women's and children's departments in the Jordan Marsh Company's main store.

"For the convenience of the thousands of women who do the buying of men's furnishings for members of their families, the Jordan Marsh Company has decided to continue the present location of its men's furnishings departments, which include men's shirts, neckwear, pajamas, underwear, hosiery, gloves, etc. The men's department now located in the Shuman building will be retained as at present, and conducted as a part of the Jordan Marsh Company's men's and boys' outfitting establishment."

A. Shuman & Company occupied two buildings, a main store and an annex. The main store fronted on Washington Street and ran back along Summer Street to a portion of the Jordan Marsh building. The annex faced on Washington Street, between the main Shuman building and the Jordan Marsh building, and extended back to the portion of the Jordan Marsh building running through to Summer Street. Directly across Summer Street was the women's specialty apparel store of William Filene's Sons Company, and diagonally across Washington Street was the general department store operated by the Gilchrist Company. With the possible exception of the land on Tremont Street between Winter Street and Temple Place, locations around the Shuman corner were considered the most valuable property for retail purposes in the city of Boston.

The Jordan Marsh Company operated a general department store selling the lines of merchandise commonly found in such an establishment. The merchandise carried by A. Shuman & Company comprised principally apparel for men, women, and children, but the store's sales were predominantly in clothing and furnishings for men and boys.

Executives of the Jordan Marsh Company planned for the time being to operate the Shuman store as a separate organization under the Shuman name. Eventually, however, they proposed to drop the designation "A. Shuman & Company" in favor of "Jordan's Store for Men." They planned to use this name in all advertising and other printed matter and on all merchandise, in order that a distinction might be built up in the minds of customers between the main department store of the Jordan Marsh Company and its specialty store for men and boys.

4. ALVARADO COMPANY

UNIT DRUG STORE—SALE OF PHONOGRAPH RECORDS

Early in 1927 the manager of the Alvarado Company, a unit drug store with annual sales of about $100,000, reached the conclusion that the sale of phonograph records, which the store had carried for over ten years, should be discontinued.

The Alvarado Company was located in a surburban trading center near a large city. It sold the usual drug store merchandise, such as prescriptions, proprietary medicines, toilet articles, rubber goods, candy, cigars and tobacco, soda, cameras, and stationery. Operating ratios for 1926 were as shown in Exhibit 1.

EXHIBIT 1

ALVARADO COMPANY
Operating Ratios for 1926
(Net Sales = 100%)

Gross Margin		40%
Expenses		
Salaries (including Manager's)	20.00%	
Rent	3.00	
Light	.75	
Insurance	.75	
Repairs	.75	
Taxes	.75	
Miscellaneous	3.00	
Total Expense		29
Net Gain		11%

In 1926, phonograph records accounted for approximately 2% of the Alvarado Company's total sales; drugs and sundries 53%; the soda fountain 28%; tobacco and confectionery 12%; and cameras, clocks, thermometers, and other miscellaneous merchandise 5%.

The company especially stressed its prescription and drug departments. No departmental figures were kept, except for sales. The salesmen worked in all departments; in the opinion of the management this practice was of value in increasing the store's customer goodwill. The line of phonograph records carried by the Alvarado Company was manufactured by a large company with national distribution. The records were purchased directly from the manufacturer, but delivery on reorders was made by the manufacturer's agent located in the neighboring city. New releases were received directly from the factory. The records were demonstrated to customers by means of an electric phonograph located at the rear of the store. The mark-up on records was higher than that obtained on most of the goods carried by the store, but heavy mark-downs were required unless stocks were watched carefully. It was almost impossible to sell an out-of-date record.

The Alvarado Company was in direct competition with one chain drug store and with three unit drug stores in the same suburban center. These stores all emphasized their soda fountains, candies, tobacco, and novelties more than the Alvarado Company did. Since many of these lines were sold on a cut-price basis, the chain drug company's purchasing facilities gave it a price advantage.[1]

[1] At this time the sale of cigarettes at low prices by chain grocery and drug stores was causing serious difficulty to at least one chain of tobacco stores.

Patronage from students in a neighboring college helped to increase the soda fountain sales of all the drug stores, especially those which operated lunch counters in connection with their soda fountains. All the other drug stores made an effort to attract this trade; but the Alvarado Company sold only a few cakes and sandwiches at its soda fountain, preferring to follow a conservative policy in this respect and to expend its energies mainly on building up a reputation as a complete drug store with a courteous salesforce. The manager believed that the store could enhance this reputation by discontinuing the sale of phonograph records. He argued that it was impossible for a drug store to build up a permanent clientele on the basis of its soda fountain or of its merchandise other than drugs; customers in these departments liked variety and therefore constantly shifted their patronage from one store to another. A reputation for service in the drug department, on the other hand, aided a store in building up a permanent clientele. The manager of the Alvarado Company believed that the community would support a drug store specializing in prescriptions and drugs, and that such a store should not sell merchandise which was not closely related to traditional drug store departments.

Should the Alvarado Company have discontinued the sale of phonograph records?

5. CHARLTON COMPANY

DEPARTMENT STORE—OPERATION OF DRUG DEPARTMENT[1]

In the spring of 1929, executives of the Charlton Company considered the advisability of discontinuing the drug department, which had not shown a satisfactory profit for several years.

The Charlton Company operated a general department store in an eastern industrial city with population of approximately 1,500,000. Its annual sales, slightly over $25,000,000, were primarily in merchandise of medium grade. The store carried apparel for men, women, and children; furniture and house furnishings; a comprehensive line of silk, woolen, and cotton piece goods; and the miscellaneous items ordinarily found in such a store.

The drug department was located in the rear of the store, near the entrance from a side street. Immediately adjacent were

[1] See case of the Morken Department Store, 2 H.B.R., 295.

the gift department and the smallwares department. Other merchandise sold on the first floor included jewelry, gloves, handbags, umbrellas, neckwear, silk underwear, hosiery, and stationery.

In the drug department an effort was made to carry a complete stock. The lines included medicines, drugs, and household remedies; toilet articles; hair and dental preparations; soaps; brushes; and rubber goods and sick-room supplies. The retail value of the average stock was approximately $218,000. The Charlton Company did not operate a soda fountain, nor did it sell confectionery either in the drug department or elsewhere in the store. A registered pharmacist was constantly in attendance, but the volume of prescription business was small. Total sales of the department were slightly in excess of $500,000 a year.

The prices of merchandise sold in the drug department were approximately the same as those of competing department stores; few attempts were made to meet the prices of chain drug stores operating in the vicinity of the Charlton store. With the exception of the semiannual clearances, no store-wide sales were held. At irregular intervals during the year, however, the drug department offered selected items of merchandise at reduced prices, which usually represented corresponding price concessions secured from manufacturers.

The operating figures of the drug department for the fall season of 1928, a typical period, had been as follows:

EXHIBIT 1

CHARLTON COMPANY
Drug Department—Operating Figures
Fall Season, 1928

Net Sales		$506,721
Gross Margin		126,687
Expenses		
Administrative	$30,149	
Occupancy	24,576	
Publicity	15,962	
Buying	20,776	
Selling	49,405	
		$140,868
Total Expense		$ 14,181
Net Loss		

Executives of the Charlton Company saw no way of improving the profit of the drug department either through an increase in the percentage of gross margin or through a decrease in the expense percentage. If the department should be discontinued, they anticipated no eventual difficulty in making use of the area thus released, though it might take two or more years to make up the loss in sales volume.

The Charlton Company never had operated a grocery department, but the executives knew of several instances in which groceries had been abandoned as unsuited for sale through department stores. They did not know of any store which had ceased to operate a drug department for a similar reason. The continued unfavorable showing of the drug department of the Charlton Company, however, caused them to question the inherent suitability of department stores for the distribution of drug store merchandise.

What action should the executives of the Charlton Company have taken with respect to the drug department?

6. ROYLE COMPANY

DEPARTMENT STORE—SALE OF HOUSE FURNISHINGS[1]

At the end of the year 1924 the merchandise manager in charge of the house furnishings division of the Royle Company was dissatisfied with the net profit of $112,020 which his division had achieved on net sales of $3,240,238. He considered three possible ways in which conditions might be improved: one or more departments might be discontinued; some new departments might be established; or the location of several of the departments might be changed.

The net sales of the Royle Company in 1924 had amounted to approximately $17,000,000. The Royle Company was endeavoring to establish a reputation for carrying a higher grade of merchandise than any other department store in Pittsburgh. The departments included in the house furnishings division occupied the fourth, fifth, and sixth floors of the store. The location of the departments from front to rear was as follows:

[1] See case of the Dunlop Company, page 246. See also case of the Mollart Company, 2 H.B.R., 301.

	Square Feet
Fourth Floor:	
Upholstery Fabrics	7,500
Lace Curtains and Lace Curtain Piece Goods	2,000
Art Goods and Art Needle Work	3,500
Domestic Rugs (Left)	7,500
Oriental Rugs (Center)	5,200
Lamps (Right)	3,500
Fifth Floor:	
Furniture	27,500
Beds and Bedding (Left Rear Corner)	2,500
Sixth Floor:	
Phonographs and Records (Right Front)	1,600
Trunks and Bags (Left Front and Next Section)	4,800
House Furnishings	4,600
Toys (Left Rear)	6,000

Over 75% of the volume of sales in the toy department was made during the Christmas season, and this department accordingly was given additional selling space at that time each year. About 50% of the sales volume in the phonographs and records department also was secured at Christmas. The peak of the sales of lamps, art goods and art needle work, trunks and bags, and house furnishings likewise came during the Christmas season. The largest sales in upholstery fabrics, lace curtains and lace curtain piece goods, furniture, beds and bedding, oriental rugs, and domestic rugs came in October. There was also a minor sales peak in all the departments of the division during the spring months.

Total net sales of the various departments in the house furnishings division for the year 1924 had been as follows:

Toys	$281,514
Lamps	220,392
Upholstery Fabrics	391,713
Lace Curtains and Lace Curtain Piece Goods	176,422
Art Goods and Art Needlework	193,058
Furniture	900,344
Beds and Bedding	159,631
Oriental Rugs	282,583
Domestic Rugs	324,740
Trunks and Bags	171,268
House Furnishings	75,027
Phonographs and Records	63,546

One buyer made all the purchases for both the furniture department and the beds and bedding department. Similarly one buyer purchased stocks for both the upholstery fabrics and the lace curtains and lace curtain piece goods departments. There was a separate buyer for each of the other departments.

The bulk of the Royle Company's furniture stock was carried in its furniture warehouse, situated in a relatively low-rent district near the outskirts of the city, at a distance of approximately three miles from the store. The floor stock of furniture in the Royle Company's main store served primarily as samples, from which customers made their selections. Deliveries were made directly from the warehouse to customers' homes.

The profit and loss statement of the house furnishings division for the year 1924 was as shown in Exhibit 1. The general expenses of the store, including such items as executive salaries, expenses of the offices, and indirect services, exclusive of delivery costs, were distributed to each department on the basis of the proportion of net sales in the department to the total net sales of the store. Rentals, which were allocated on a weighted square foot basis, included a charge both for the selling area and for the reserve stock and warehouse space used by the particular department.

The merchandise sold in the house furnishings department included a number of more or less related items, such as smoking stands, ash trays, electric irons, waffle irons, glassware, brass goods, and kitchen items. At one time kitchen pots and pans also had been sold in this department; early in 1924, however, these lines had been discontinued as not in keeping with the merchandise sold in other departments in the division. Refrigerators and washing machines at one time had been sold on the sixth floor, but early in 1924 they likewise had been discontinued. A considerable part of the space formerly used for the display and sale of this merchandise was still unoccupied.

In the case of the art goods and art needle work department, the selling space was so restricted that the merchandise could not be displayed effectively. About 70% of the sales in this department consisted of yarn, patterns, and outlines, which customers purchased to work on at home; the remaining 30% of the sales comprised such items as pottery, glassware, art flowers, silk and lace novelties, wrought iron novelties, picture frames, and antique furniture. The divisional merchandise manager thought that sales of antique furniture might be considerably developed. In the autumn of 1924 a small lot of antique furniture had been purchased by way of experiment, and a stock of $10,000 at cost had been completely sold in three weeks. The original mark-up on antique furniture sometimes was as high as 125% on cost, and

EXHIBIT 1

ROYLE COMPANY

House Furnishings Division—Profit and Loss Statement for Year Ending December 31, 1924
(Net Sales of Each Department = 100%)

Particulars	Toys	Lamps	Upholstery Fabrics	Lace Curtains and Lace Curtain Piece Goods	Art Goods and Art Needlework	Furniture	Beds and Bedding	Oriental Rugs	Domestic Rugs	Trunks and Bags	House Furnishings	Phonographs and Records	Total House Furnishings Division
Gross Margin	38.82 %	30.63 %	29.17%	34.56 %	36.42%	32.62%	40.56%	30.28%	30.66%	33.50%	30.21 %	31.54 %	33.52 %
	3.11	3.26	2.70	2.31	3.32	4.40	1.51	2.74	2.90	3.02	4.83	6.33	3.42
Advertising	2.06	3.77	2.55	2.35	4.04	2.16	1.21	3.06	2.85	2.83	.75	7.94	2.81
Salaries—Selling	7.69	4.76	7.04	4.35	7.60	2.35	6.50	4.18	4.25	3.06	10.03	7.07	5.99
Salaries—Other	2.15	1.69	.78	.36	2.03	6.22	.38	.35	.60	.83	2.69	1.44	1.32
Other Direct Expenses	3.58	2.63	2.77	3.99	4.23	.50	2.03	2.39	4.04	3.44	6.46	5.79	4.31
Rent	.35	.21	.14	....	.30	.07	....	.09	.05	.18	.05	.09	.25
Window Rent	4.13	2.77	1.42	1.73	2.26	.07	.08	.41	.08	1.75	5.20	1.54	1.34
Inside Delivery	3.87	2.70	1.87	1.13	2.60	3.80	5.36	.80	1.15	1.85	3.56	11.81	2.64
Outside Delivery	11.81	11.81	11.81	11.81	11.81	11.81	11.81	11.81	11.81	11.81	11.81	11.81	11.81
Proportion of General Expense	39.35	33.60	31.08	28.02	37.82	37.43	31.59	25.53	20.53	30.47	45.47	42.93	33.80
Total Expense	.53*	6.03	1.01*	6.54	1.40*	4.80*	8.07	4.65	1.13	3.03	15.26*	11.39*	.37*
Net Merchandising Profit	1.39	1.22	2.03	2.34	1.75	1.06	2.99	1.35	2.80	2.33	1.37	1.41	1.79
Cash Discount	2.51	2.28	1.49	1.85	2.05	2.07	1.23	2.70	1.45	2.31	2.13	2.45	2.04
Net Bill Discount (Loading)	3.27	9.53	2.21	10.53	3.00	1.47*	12.48	8.90	5.38	7.07	11.76*	7.53*	3.46
Total Net Profit	10.60	4.34	4.46	4.68	3.22	3.27	19.78	1.62	2.24	6.50	2.81	1.71	3.34
Stock-turn (times a year)†	2.95%	5.66%	6.00%	1.01	6.40%	9.62%	7.92%	-53%	5.85%	1.72%	12.10 %	5.10 %	6.30 %
	.69	.69	.89	1.17	.80	.85	.85	.99	.96	1.02	1.11	.67	.83
Retail Reductions—Regular	....	....	2.31	....	....	....	.07	.....	.....	.....	.....	.....	.34
Retail Reductions—Discounts	.67	.11*	1.84	.31	1.26	.07	.....	.....	.22	.....	.22	1.66	.....
Retail Reductions—Samples													
Inventory Shrinkage													

* Figures shown in red.
† Based on beginning and ending inventories.

it was probable that a gross margin of 40% of net sales could be secured.

The possibility was considered of establishing a department to sell wicker furniture. A small quantity of wicker furniture had been carried in the furniture department, primarily from March to September, and during 1924 net sales of wicker furniture had amounted to approximately $40,000. If a wicker furniture department were established, it could be placed under the charge of the buyer who was responsible for the furniture department and for the beds and bedding department. It was thought that a gross margin of 36% of net sales could be secured on wicker furniture. As on all furniture, however, the selling and handling expense was high; this was particularly true of the delivery expense.

For about a year the Royle Company had sold radio instruments and equipment. A net loss had been incurred on this business, however, and for that reason this department had been discontinued. The losses sustained on radio merchandise were attributed to the rapidity of the scientific development of the industry, as well as to the high ratio of returns and the unusual extent of service required.

Traffic on the fifth and sixth floors was about the same in density. There was a rest room for women located on the fourth floor, and consequently more customers went to this floor than to the fifth and sixth floors. In order to effect any necessary improvements in flooring, fixtures, and lighting equipment on the fourth, fifth, and sixth floors, the management was prepared to spend approximately $150,000.

7. LEIGH COMPANY

DEPARTMENT STORE—OPERATION OF CONTRACT DEPARTMENT

In 1926 the Leigh Company established a department which contracted to furnish hotels, apartment houses, government buildings, theatres, and public institutions with furniture, upholstery, floor coverings, and linens. This department was prepared to do all the actual work of furnishing a building except the painting and paper hanging.

The Leigh Company, which was located in a large middle-western city, was a general department store selling principally medium-price merchandise. Annual sales in 1928 were approximately $25,000,000. The executives had decided to engage in contract business primarily because they believed that it would yield readily a large volume of sales which would help to meet part of the company's fixed expenses.

The man who was made manager of the contract department had been successful in similar work with a large eastern department store. Other employees in the department were an interior decorator, a secretary, a salesman, and three solicitors and estimators. The number of employees engaged in installing furnishings varied with the volume of business being done.

At the time the Leigh Company established its contract department it was customary for decorating firms to take contracts on the basis of cost plus 10%. The cost, however, upon which the 10% was computed included only the billed cost of material and the cost of installation. The contractor was reimbursed for actual freight and cartage charges also, but was not permitted to add 10% to these expenditures. Organizations which had work done usually reserved the right to examine all the Leigh Company's accounts, in order to guard against being overcharged by the company or to detect any secret rebates which the company might have received from manufacturers.

The Leigh Company abandoned the cost plus 10% basis within a year. Executives believed that the 10% margin had not covered all the indirect costs, such as administrative expenses, the expense of estimating, and the cost of collection, although they knew of no way of computing these indirect expenses exactly. With the new policy which the company adopted in 1927, costs of material and direct labor were estimated as accurately as possible; and a margin, varying with competitive conditions, was added to the cost to arrive at the bid amount. The margin added was never less than 20% and usually ranged between 20% and 30% of the estimated cost. In 1928 the Leigh Company secured a gross margin of 10.6% on its contract sales, while direct expenses were 6.4% of sales.

The head of the contract department was expected to keep informed of all buildings that were to be furnished. He approached the person or persons in charge of a building project and requested the privilege of submitting a bid on the work to be done. Frequently in submitting a bid he was required to give a complete plan of the method of decoration which he proposed to follow, and also to show samples of the materials which he expected to use. The expenses of preparing the plans of decoration and the costs of the samples were large, and the company was not reimbursed for these outlays as such. Since the Leigh Company purchased some of the samples of merchandise outright from manufacturers, it was left with the merchandise on its hands if it was not able to secure the contract. The inventory, which consisted principally of samples, usually amounted to about $4,000.

The Leigh Company, when it had secured a contract, specified that a down payment of 25% to 33⅓% of the amount of the bid be paid when the work was started. The company usually granted from two to three years for the payment of the remainder, taking a 6% chattel mortgage as security. Until a debtor had paid the entire amount which he owed, he was likely to make unreasonable demands for adjustments and repairs; and the Leigh Company, in order to be sure of receiving the subsequent payments, was forced to accede to his demands. If the debtor refused to make payments, the Leigh Company presumably could obtain a court judgment or foreclose the mortgage. Court expenses in such an event, however, were likely to be large; and, moreover, the company did not wish to become involved in litigation or to become a part owner of a hotel or theatre by foreclosing a mortgage. The Leigh Company seldom had taken drastic steps to force a debtor to pay his account.

In the installation work the Leigh Company had had several difficulties. For instance, at one time it had been forced to hire a union steel worker at $5 a day more than it was paying its own men to drill holes in window frames for curtain rods. At another time the company's linoleum layers had not been allowed to remove or replace the tops of the electrical floor outlet boxes. This work the union of electrical workers insisted had to be done by its members.

The Leigh Company faced competition in the contract business from other department stores, from wholesalers, and from manufacturers. One outstanding competitor, whose business consisted primarily of contract work, had an almost nation-wide organization for securing and carrying on contract business. This competitor also owned or had interests in a number of the factories which manufactured the materials it was using. Several manu-

facturers of furniture and floor coverings sold their materials direct to customers and allowed local contractors only such profits as they might secure from the work of installation.

An executive of the company stated that while he did not know what the actual losses from bad debts had been, since a majority of the contracts had been made on a liberal time payment basis, he believed that they had been large. The largest contracts had been secured from hotels and apartment houses. Usually the promoters of such enterprises were overenthusiastic, and they often underestimated their financial requirements. Later, when the construction work had progressed to the extent that the Leigh Company could install the furnishings, it often happened that the promoters found themselves without sufficient money to pay the company. In cases of this kind the Leigh Company was forced to carry the accounts for some time, with the possibility of eventual loss. It was also stated that the annual sales volume of $700,000 in the contract department was not sufficient to enable the company to maintain a competent credit department. Moreover, the executives saw few possibilities of increasing the sales volume. In their opinion, also, the Leigh Company had not improved its relations with manufacturers through its contract business, because it was forced frequently to demand price concessions.

Therefore, in the latter part of 1928 the Leigh Company took steps to discontinue its contract department.

8. KIRKBY COMPANY

LUMBER AND MASON MATERIAL DEALER—OPERATION OF RETAIL STORE

In February, 1929, executives of the Kirkby Company, a dealer in lumber and mason materials, considered the advisability of continuing a contract with the Ripley Lumber Stores which provided that the latter company furnish management counsel to the former company. The contract, which had been entered into ten months previously, could be terminated after one year by either party on two months' notice.

Under the terms of the contract the Kirkby Company had made an initial payment of $3,000 to the Ripley Lumber Stores in

return for advice regarding the location and layout of a retail lumber store and the types of merchandise to be carried in the store. In addition, the Kirkby Company was paying 5% of monthly gross sales to the Ripley Lumber Stores for advertising and window and store display material, for merchandising counsel, and as compensation for agreements which the Ripley Lumber Stores had made with several manufacturers of nationally advertised products whereby the manufacturers paid the Kirkby Company for the right to display their products in the Kirkby Company's store. The Ripley Lumber Stores was purely a management organization; it did not sell or furnish any merchandise. The executives of the Kirkby Company were undecided whether to continue the store if they should terminate the contract.

The president of the Ripley Lumber Stores, who had had experience managing a retail lumber store, had developed certain theories with respect to the economies to be effected by consolidating lumber companies in several cities into a chain. He believed that lumber companies, which usually were located on the outskirts of large cities and sold almost exclusively to building contractors, should have retail stores where they would be convenient to more people. He further believed that lumber companies were not availing themselves of the opportunities which existed for selling merchandise such as flooring, wall boards, insulating material, roofing, and other products directly to consumers, either home owners or those contemplating building. He thought that retail stores, especially those in the shopping districts, would be valuable from an advertising standpoint and might even result in consumer insistence on certain products; they would be especially valuable in reaching women, who undoubtedly had much influence in the selection of materials to be used in building or remodeling their homes. He believed, furthermore, that it would be advantageous for a lumber company to establish several retail stores in the same city to reach people throughout the city. Since a single yard would serve several retail stores, there were possibilities of increasing sales without incurring a proportionate increase in the yard expenses. He believed also that the executives of a company could operate several stores almost as easily as a single store.

Some of the economies in operating costs that the individual lumber company might secure through the establishment of a number of retail stores the president expected could be obtained

also by a chain of lumber companies in several cities. Furthermore, he expected that manufacturers would be willing to pay for the display of their products in lumber stores and that a chain would be in a better position to secure such payments than would individual dealers.

When the president of the Ripley Lumber Stores signed the contract with the Kirkby Company, he had made agreements with two other lumber dealers, also in middle-western cities. He expected that he would be able to induce 25 companies to enter into similar agreements within a year, and eventually 100. By February, 1929, however, only six concerns had signed contracts. Five, including the Kirkby Company, were located in various middle-western cities, and one in a large southern city. Partly on the basis of his expectations that he would sign up 25 lumber companies, 6 manufacturers of products such as roofing, flooring, wall board, and insulating material had agreed to pay $25 monthly to each store for the display of their products in the store. In February, 1929, these six manufacturers apparently were willing to continue their agreements with the Ripley Lumber Stores for another year.

The Kirkby Company, a long-established dealer in lumber and mason materials, located in a city with a population of approximately 500,000, had its yard, offices, and a showroom on the outskirts of the city, but on a main traffic artery. Sales, which in 1928 had been approximately $300,000, had not increased since 1925. The company advertised to a small extent in newspapers, on billboards, and directly by mail to building contractors and property owners. One of the company's executives spent a part of his time in selling, and the company employed one outside salesman to solicit orders from building contractors. Practically all the sales of the company were to building contractors.

The site which had been selected by the Ripley Lumber Stores for the Kirkby Company's retail store was in a large residential suburb on the opposite side of the city from the company's offices and on a main street leading into the city. There were no other lumber companies in this suburb. The immediate locality had developed within recent years into an active secondary shopping center, principally as the result of the growing traffic congestion in the downtown section of the city.

The building selected for the store was on a corner, with windows on two sides. It was approximately 30 feet by 40 feet,

and consisted of a main floor and basement. The president of the Ripley Lumber Stores had recommended that the stock in the store should amount to approximately $2,000 at cost and consist of the following merchandise: products which a home owner or carpenter would buy for minor repairs, such as lumber and nails; products such as flooring, wall board, insulating material, and roofing, which the public presumably had come to recognize through the advertising efforts of manufacturers; building specialties, such as corner closets and wardrobes; and unpainted furniture, and paints and stains for unpainted furniture. Although the Kirkby Company had not sold unpainted furniture previously, he advised the company to carry it in its retail store in order to interest women. During the first ten months of operation, approximately one-third of the store's sales were of unpainted furniture, and paints and stains for unpainted furniture.

The terms of the agreements between the Kirkby Company and the six manufacturers who paid for the display of their products prohibited the company from displaying competing merchandise, although it could sell competing merchandise if customers asked for it. The Kirkby Company was expected to advertise the products for which it had display agreements, although it did not receive an advertising allowance. Except for the allowance for display the Kirkby Company did not receive lower prices or better terms than other lumber dealers.

When the store was opened, there was only one employee, the store manager. Later the company added two assistants, who remained in the store while the manager engaged in outside selling. The main office of the Kirkby Company kept all accounts for the store and was in charge of credits and collections.

Executives of the Kirkby Company estimated, on the basis of the first ten months' operations, that sales during the first year would be approximately $25,000. They knew, however, that it would be difficult to reach an accurate estimate of the cost of operating the store. The cost of installation had been $3,000. They reasoned that this amount should not be charged against one year's operations but proposed to charge off one-fifth of it for each of five years. The store was credited with sales arising from leads secured by the store as well as with sales made in the store.

Sales were classified into two types: direct sales, or those which were made in and delivered from the store; and memorandum sales, or those which were made in the store and delivered

from the company's yard. The store was charged with the direct expenses it incurred and also with 15% of the cost of the merchandise which was purchased for the store and from which direct sales were made. This charge was considered an operating expense of the store. On a memorandum sale the cost of the merchandise to the retail store included the original cost of the merchandise plus the expenses incurred by the yard in handling the sale and in making delivery. Ordinarily the yard's costs on memorandum sales were approximately 15% of the original cost of the merchandise. No charge, such as that on direct sales, was made as an operating expense of the store in the case of memorandum sales.

On the basis of estimated expenses and estimated sales, executives concluded that the store would sustain a loss of approximately $850 during the first year of operation. The estimated sales, cost of sales, expenses, and income from display agreements for the year ending March 31, 1929, were as shown in Exhibit 1.

EXHIBIT 1

KIRBY COMPANY

Estimated Sales, Cost of Merchandise Sold, Expenses, and Miscellaneous Income of Retail Lumber Store for Year Ending March 31, 1929

Sales		$25,000
Cost of Merchandise Sold		17,890
Gross Margin		$ 7,110
Rent	$3,000	
Salaries and Wages	2,150	
Advertising	1,150	
15% Charge on Direct Sales	1,050	
Ripley Lumber Stores Fee	1,250	
Amortization of Installation Cost and Other Fixed Charges	800	
Miscellaneous Expenses	360	
Total Expense		9,760
Loss		$ 2,650
Income from Display Agreements		1,800
Net Loss		$ 850

The executives of the Kirkby Company were undecided whether to continue the contract with the Ripley Lumber Stores and also whether to continue the retail store in the event that they terminated the contract. They did not know whether manufacturers would be willing to make display agreements with an individual lumber company similar to those made with the Ripley Lumber Stores, because of the limited market reached and because

such procedure might set a precedent they would be loath to follow. The general manager of the Kirkby Company thought it probable, however, that four manufacturers would be willing to make such agreements with the company. In addition to the assistance given at the time of the installation of the store, the displays of manufacturers' products, and the payments from manufacturers, the Ripley Lumber Stores several times had advised the Kirkby Company regarding advertising and selection of merchandise for the store. Otherwise the Ripley Lumber Stores had given no assistance.

Should the Kirkby Company have renewed its contract with the Ripley Lumber Stores?

In the event that the company did not renew the contract, should it have continued its retail store?

9. MID-CONTINENT UTILITY COMPANY

PUBLIC UTILITY—SALE OF ELECTRICAL APPLIANCES

The Mid-Continent Utility Company, which supplied electricity to about 200,000 customers, maintained a retail appliance store at its main office and in addition had 20 district business and service offices which carried appliances for sale. In October, 1929, the superintendent of the company's appliance department was requested to lengthen the period allowed to customers for making deferred payments on a prominent make of electrically-operated refrigerator.

This request was made by the local wholesale distributor for the refrigerator and by two local department stores which carried that make of refrigerator. The distributor and the department stores had agreed among themselves as to the proposed change in terms, but wished to have the Mid-Continent Utility Company agree to make the offer before it was announced to the public. Specifically, the offer was that a customer who purchased a refrigerator during the period from November 15 to January 1 might make an initial payment ranging from 10% to 25% of the price at the time of purchase and pay the first of the 12 monthly installments the following March. The established policy was to have installment payments begin the month following the purchase.

The department stores which planned to offer the longer time for payment expected to charge all customers interest from the time of purchase. Installment sales represented 45% of the Mid-Continent Utility Company's total refrigerator sales, 30-day accounts 40%, and cash sales 15%. Under the terms of its installment contracts, the company retained ownership of the refrigerators until payments were completed and leased them to the purchasers during that period.

In 1928 the appliance department of the Mid-Continent Utility Company had made sales of slightly less than $1,000,000. The department sold electrical appliances of all types, such as refrigerators, ranges, washing machines, vacuum sweepers, irons, and percolators. It was estimated on the basis of sales for ten months that in 1929 sales of refrigerators would represent 50% of total sales of the appliance department. The company sold various makes of each type of appliance; for instance, it sold three brands of refrigerators, three of washing machines, four of vacuum cleaners, and from two to five brands of small appliances.

The primary purpose of the company in selling electrical appliances was to increase the consumption of electricity. Another important reason was the company's wish to provide its customers with dependable appliances which would not cause difficulties in use. It sold only appliances which met its tests for dependability. Many people hesitated to buy electrical appliances which the Mid-Continent Utility Company did not carry. Other retailers of electrical appliances, recognizing the influence of the company on customers in this respect, often sought the cooperation of the company in promoting sales of appliances. For instance, several department stores had delayed their announcements of a new vacuum sweeper until the Mid-Continent Utility Company was ready to place it on sale. As a result, the company usually was the first local retailer to sell new types of appliances.

The appliance department of the Mid-Continent Utility Company was under the superintendent, who reported directly to the vice president. Within the appliance department there were the following five divisions: refrigeration, washing machines and vacuum sweepers, ranges, small appliances, and commercial. The last division made large installations for commercial use, such as ovens for bakeries. The organizations of the various divisions differed. In the refrigeration division there were five supervisors, who assisted the salesmen in completing sales and who also did some

selling. The supervisors received straight salaries. There were 16 outside salesmen, who sold all types of appliances, and 8 salespersons in the main store. The salesmen were paid salaries based on their sales.

In each of the 20 district offices there was a manager; a bookkeeper, who received payments on customers' accounts; a clerk, who exchanged electric light bulbs and sold merchandise; a so-called "trouble shooter," who remedied interruptions to customers' service, such as those caused by burned-out fuses; an overhead wire repair man; and a power salesman, whose main duty was to advise large users of power regarding proper equipment.

The appliance department of the Mid-Continent Utility Company always had operated at a loss. The operating ratios of the department for 1928 were as shown in Exhibit 1.

EXHIBIT 1

MID-CONTINENT UTILITY COMPANY

Appliance Department—Operating Ratios for 1928
(Net Sales = 100%)

Sales		100.0%
Cost of Merchandise Sold		73.9
Gross Margin		26.1%
Selling Salaries	11.5%	
Other Salaries, including Accounting and Executive	5.9	
Miscellaneous Selling Expense	2.6	
Rent	5.2	
Advertising	3.8	
Interest on Merchandise Stock	.6	
Interest on Accounts Receivable	1.6	
Window Trimming	.2	
Delivery	.7	
Losses through Repossessions and Bad Debts	.9	
Special Promotional Offers	.9	
Insurance	.2	
Miscellaneous	.8	
Total Expense	34.9%	
Income from Carrying Charges	2.3	
Net Operating Expense		32.6
Net Loss		6.5%

The figure for sales included sales to employees and sales at wholesale; the latter were not large. The cost of merchandise included warehouse salaries and expenses. Since the goods sold by the appliance department were billed on the customers' monthly statements sent out by the main office accounting department, the appliance department was charged with a portion of the accounting office expenses. Rent represented the charge for

space used by the appliance department at the main office and one-fifth the rental cost of the district offices. Advertising included only direct expenditures for electrical appliance advertising. The appliance department was charged with 6% interest on its investment in merchandise and on its outstanding accounts receivable. The latter charge was offset by the income from carrying charges on installment sales. The company charged a customer buying on installment terms 6% of the balance after the initial payment. The expense item Special Promotional Offers represented the value of certificates or coupons given by the company to customers to apply on the purchase of appliances. These coupons were mailed to prospective customers or inserted in the company's newspaper advertisements.

In 1928 the appliance department had expended approximately 4% of net sales in newspaper and direct mail advertising. The company frequently shared with manufacturers the cost of advertising their appliances in newspapers; it sought to cooperate equally with all manufacturers of the same type of appliance.

Prior to 1926 the appliance department had employed about 25 house-to-house canvassers to solicit orders for electrical appliances. Executives of the company, however, believing that the growth of house-to-house selling had been so extensive that many people regarded it with disfavor, had made a survey to determine the attitude of customers. On discovering that a majority of people were antagonistic to house-to-house selling, the company had discontinued that practice.

The company did not solicit orders directly until customers had manifested a desire to purchase by answering an advertisement or by inquiring at the central store or at one of the district offices. The 16 outside salesmen were assigned to selected district offices, and it was their duty to call on customers who had inquired about appliances. The head of the refrigeration department estimated that sales of refrigerators by the five supervisors represented 70% of total refrigerator sales, sales of the outside salesmen and the district offices 20%, and sales of the central store 10%. The company paid local electrical contractors a 10% commission on sales to customers whose names they furnished to the company.

The selling methods of other electrical appliance distributors differed. Department stores and electrical appliance stores usually relied on advertisements to bring prospective customers into their stores. In department stores, displays of appliances often attracted shoppers from other departments. An executive of the Mid-Continent Utility Company believed that other stores did not follow the company's policy of forbidding inside salespersons to approach a customer until the latter definitely requested attention. Some local retailers of refrigerators represented only one manufacturer; they employed house-to-house canvassers and made intensive efforts to find prospective customers.

The company had no special interest in the sale of one manufacturer's appliances in preference to those of others, and consequently it attempted primarily to convince customers of the need for the particular type of appliance. Salesmen pointed out the merits of each manufacturer's product and allowed the customer to make her choice.

From November, 1928, to October, 1929, inclusive, the Mid-Continent Utility Company's sales of refrigerators by months, expressed as percentages of the average monthly sales, were as shown in Exhibit 2.

EXHIBIT 2

MID-CONTINENT UTILITY COMPANY
Monthly Variations in Sales of Refrigerators for Year Ending October 31, 1929
(Average Monthly Sales = 100%)

November	15%
December	51
January	71
February	78
March	112
April	190
May	167
June	145
July	117
August	94
September	89
October	71

The installation of electrical refrigerators usually was made by electrical contractors engaged by the retailers. In the spring of 1929 the sales of electrical refrigerators had been so large that retailers had found it difficult to have installations made until a week or two after the time of the sale, and salesmen had been prevented from reaching all prospective customers.

The request from the retailers for an extension of the deferred payment period caused the Mid-Continent Utility Company to review its entire policy with respect to the sale of appliances. The company was undecided whether to continue its existing policy

of cooperation with other retail outlets or whether to adopt a more aggressive policy of competing actively with these retailers in the sale of appliances.

10. BUNTEN COMPANY

DEPARTMENT STORE—SALE OF AUTOMOBILE TIRES[1]

In March, 1929, the management of the Bunten Company, a department store, was undecided whether to continue selling automobile tires. The store had sold automobile tires since 1922. One of the merchandise managers, however, had recommended for several years that the Bunten Company discontinue selling tires. This merchandise manager believed that the company frequently was required, in order to hold the goodwill of its customers, to give very liberal allowances on defective tires and to make adjustments of unwarranted claims.

The Bunten Company, which was located in the central shopping district of one of the largest cities of the United States, sold merchandise in the high-medium price classification. The

[1] "A plan for a nation-wide string of superservice stations in which the sale of gasoline, oil and grease will be combined with a complete tire and battery service was outlined by Harvey S. Firestone, head of the Firestone Tire & Rubber Co., in a visit to Tulsa last week.

. . . . . .

"'Distribution of tires, gas and accessories has been extravagant,' Mr. Firestone told the Chamber of Commerce. 'There have been far too many individual oil and gas stations, tire accessory and battery shops for the good of the industry. Because of the existence of so many stations, the employees are idle much of the time. Expensive properties, with big overhead expenses, are idle much of the time.

"'By confining all of these lines in one station, we will reduce distribution and service costs.

"'In these standard stations full stocks of tires and tubes, oils and gases and greases, batteries and accessories will be carried. Hence, one such station will serve the trade formerly served by an individual tire station, a filling station, a battery station and an accessory shop. The one station will be doing the work of four, with less overhead expenses, less investment and less idleness.'

"The plan which Mr. Firestone outlined will be financed with a $30,000,000 appropriation which the Firestone Tire & Rubber Co. authorized the first of the year. This appropriation was made to help finance dealers. A separate organization to be known as the Firestone Stores, Inc., will have charge of the fund. Where it is considered expedient the Firestone Stores, Inc., will finance a local dealer in the erection of a service station, the company owning 51% of the stock and the dealer 49%. Thus a fund of approximately $60,000,000 will be created for station construction. The company will have controlling interest in the projects although the actual management will be largely in the hands of the dealers."—*The Oil and Gas Journal*, April 4, 1929, page 47.

store was known as a general department store; its annual sales were approximately $40,000,000.

The automobile tire department, which was situated in the basement near the departments selling automobile robes, motoring coats, and sporting goods, occupied approximately 300 square feet. The company sold only one brand of tires. Other outlets for this brand in the same city were the manufacturer's wholesale and retail branch, and two automobile accessory retailers. The manufacturer advertised in national publications. The Bunten Company occasionally displayed tires in its windows, and from time to time it advertised them in newspapers.

The divisional merchandise manager considered that the brand of tires carried was equal in quality to any of the high-grade brands on the market. This brand had been selected in 1925, after the company had decided to discontinue selling the brand which it had carried and with which it was not satisfied. Practically all the tires sold by the Bunten Company were purchased by regular customers of the company who saw the tires on display in the store or in the windows or saw them advertised in newspapers. Previous to 1925 the management had regarded price as the most important buying motive for tires. Since then, guaranteed high quality at a reasonable price had been stressed. The Bunten Company did not give purchasers any service in mounting the tires on rims or wheels, as did the local Sears, Roebuck & Company stores, for instance.

The Bunten Company gave a year's guarantee on each tire, allowing a customer to purchase a new tire at one-twelfth, two-twelfths, and so on, of the selling price, depending on the number of months the tire had been used before the defect was revealed. The Bunten Company had a similar agreement with the manufacturer. Tires were guaranteed only against defects in manufacture. In several cases customers had returned tires to the store as being defective when underinflation or poor wheel alignment had been the cause of the difficulty. In order to retain the customers' goodwill, the company usually had made liberal adjustments of claims of this kind.

The Bunten Company had sold both brands of tires at the retail prices suggested by the manufacturers. The manufacturer of the tires sold prior to 1925 had made frequent changes in the suggested selling price of tires in order to meet competition of other tire manufacturers. The tires sold after 1925 had not been

subject to these fluctuations in price. The Bunten Company purchased tires outright. Since the manufacturer's own wholesale branch was located in the same city, the Bunten Company could get immediate delivery of any sizes of tires which it did not have in stock.

The sales, gross margin, expenses, and rate of stock-turn in the tire department for the years 1924 to 1928 had been as follows:

Net Sales = 100%

Year	Sales	Stock-turn	Gross Margin	Expense
1924	$80,000	1.8 times	22.4%	24.5%
1925	41,000	1.8	32.0	28.4
1926	34,000	1.7	19.8	29.0
1927	17,000	2.6	17.7	32.9
1928	12,000	6.8	26.7	31.9

Since the Bunten Company was uncertain whether to continue selling tires, the management had made no special efforts to build up sales in this department in 1927 and 1928.

Should the Bunten Company have continued to sell automobile tires? If so, should the primary sales appeal have been based on quality or on price?

11. CLOUSTON COMPANY

AUTOMOBILE DEALER—SALE OF RADIOS

In October, 1929, the manager of the Clouston Company, which sold automobiles at retail, considered adding the sale of radios to the company's activities. The manager expected that the demand for automobiles during November, December, and January would be small.

The Clouston Company sold only the Wyman make of automobile, offered in models with a retail price range from $1,000 to $2,000. The number and the retail value of new automobiles sold by the Clouston Company during the preceding 12 months were as shown in Exhibit 1. The company's mark-up on new automobiles was approximately 25% of the retail value.

During this period the company sold approximately 100 used cars which had been taken in as part payment for new automobiles

or for other used cars. It required on the average about three months to dispose of a used car involved in the sale of a new automobile. The manager estimated that the allowances made on used cars which had been taken in as part payment for new automobiles had been between 30% and 35% of the retail value of the new automobiles sold. Receipts from the sale of used automobiles did not equal the amounts allowed for them, plus the costs of reconditioning; but the loss on used cars was not definitely known.

EXHIBIT 1

CLOUSTON COMPANY

Number and Retail Value of New Automobiles Sold October, 1928, to September, 1929

	Number	Retail Value
1928		
October	4	$ 6,600
November	4	5,900
December	2	3,400
1929		
January	1	1,800
February	3	5,100
March	5	8,500
April	10	16,800
May	7	11,000
June	5	8,800
July	3	4,900
August	4	7,600
September	3	5,400
	51	$85,800

Operating expenses exclusive of salesforce commissions ranged between $1,100 and $1,200 monthly. All selling was done by the manager and the company's one salesman. The company paid its salesman a drawing account of $35 a week, and a 5% commission on sales in excess of $700 weekly. The salesmen whom the company had employed at various times often had failed to earn their drawing accounts, however, and the manager planned in future to pay only a 5% commission on sales.

The Clouston Company occupied a one-story building, 60 feet by 60 feet in size, on a main thoroughfare between two secondary shopping centers of a suburb of a large western city. The company was able to display about ten automobiles in its showroom,

which occupied 75% of its total floor space. The remaining space, in the rear of the building, was given over to the company's service department, which employed two expert mechanics. It had gained a reputation for reliable repair service and had many regular customers for repair work. Automobile owners commonly had their automobiles serviced periodically.

In 90% of the sales of new and used automobiles, the customers had been sought out by the manager or by the salesman; the other 10% of sales had been made to customers who came into the showroom on their own initiative. Many persons entered the company's showroom in the process of shopping for the largest allowance on their used cars, but the company had not attempted to sell cars to persons asking obviously excessive allowances.

While considering the question of selling radio sets the manager of the Clouston Company compared the merits of eight different makes of radio during a week's test. To make this test he secured one model of each make and had all the models placed in the company's showroom, ready to operate. Thus he was able to study each set in operation and to make effective comparisons. In addition, the manager questioned visitors to the showroom as to their preferences.

In connection with each make of radio the manager also considered the manufacturer's policy in regard to discontinued models. At various times manufacturers had offered discontinued models at substantially reduced prices but had made no allowances to dealers who still had in stock sets purchased before the price reduction. The manager knew also that several radio manufacturers who had on hand large stocks of radio sets were in financial difficulties. The manager learned of one manufacturer, however, who had not made a practice of giving lower prices on discontinued models and who appeared unlikely to be forced to dispose of excess stocks at lower prices. This company's models customarily were offered at retail prices ranging between $125 and $900. Several other radio dealers in the same suburb also sold this radio.

At least two radio sets should be on hand in the sales office at all times, in the opinion of the Clouston Company's manager, one for demonstration purposes and the other for window display. To show the two radio sets effectively would require the space usually given to the display of two automobiles. In addition to the two sets in the showroom the manager contemplated having several others available to place on trial in the homes of prospective customers. He also planned to employ salesmen who would sell radios exclusively and would canvass from house to house, receiving a 15% commission on radio sales, less allowances for used sets accepted in trade. The latter were expected to be offered infrequently. By arrangement with the finance company which it used for automobile sales, the Clouston Company could offer the same deferred payment terms for radios as for automobiles: 33⅓% down and the balance in 12 monthly installments, with an 11% charge on unpaid balances.

Radio retailers purchased sets from local wholesale distributors. The usual discount was 40%, plus 5% off the manufacturer's suggested retail prices, payment to be made upon receipt. Distributors employed repair men whose services the Clouston Company could secure without charge until the company's salesmen learned to make minor repairs. Many of the difficulties experienced with radio sets, such as loose connections or burned-out tubes, were of minor character and could be remedied easily. Retailers usually referred serious troubles to the distributors' repairmen. Radio dealers customarily gave free service for a month. Radio manufacturers commonly guaranteed for one year to replace defective parts, excepting tubes, which were guaranteed for only six months.

Should the Clouston Company have undertaken the sale of radio sets?

12. LEDWITH COMPANY

AUTOMOBILE DEALER—SALE OF AIRPLANES

Late in 1929 the president of the Ledwith Company, which sold automobiles in Trowton, was asked by the Parker-Weston Company, a distributor-dealer for Sky King airplanes and Vollmer airplane engines, to display a Sky King airplane in the showroom of the Ledwith Company. There were four retail dealers for Sky King airplanes in the territory, none of whom was located near Trowton.

In Trowton, a metropolis with a population of several hundred thousand, the Ledwith Company sold at retail Lorley automobiles, the delivered prices of which ranged between $3,000 and $7,000.

The company also acted as wholesale distributor for Lorley automobiles in an extensive territory around Trowton. The Ledwith Company's showroom and service department were located on a main thoroughfare in Trowton; the showroom provided sufficient space for the display of ten automobiles, which represented a complete line of Lorley models. The company had annual sales well in excess of $1,000,000. On the automobiles which it sold at retail the Ledwith Company received a discount of approximately 25%.

The Sky King line of airplanes included a number of models ranging from small open-cockpit sport planes to eight-place cabin planes, suitable for use either by private owners or by business firms other than transport lines, which required larger planes. Most of the Sky King airplanes were powered by Vollmer engines. The delivered retail prices of Sky King airplanes, complete with engines, ranged from $4,000 to $18,000, the price depending both on the type of airplane and on the type and number of engines installed. The average price was about $8,000.

The Parker-Weston Company had been organized early in 1929 to act as a wholesale distributor and retail dealer for airplanes and airplane motors, and was equipped to perform all necessary repair services for the products it represented. With a hangar and repair shop at the municipal airport, a short distance outside Trowton, the company was recognized as a leading factor in local aviation developments. Its airplane and engine franchises permitted the Parker-Weston Company to appoint retail dealers throughout its territory, and the company was contemplating expanding its market as rapidly as possible.

The territory around Trowton was not especially well suited for flying purposes, since the establishment of good airports had been slow, the terrain was hilly, and weather conditions were highly variable. The inhabitants of the territory had not taken up flying for either pleasure or business purposes to any great extent. There were, however, about 40 Sky King airplanes in use in the territory, and of these the Parker-Weston Company and its dealers had sold more than one-half.

Although the president of the Ledwith Company was not well acquainted with the relative merits of different airplanes and airplane engines, he had the impression that Sky King airplanes and Vollmer airplane engines were as favorably known as any airplanes and airplane engines. The Parker-Weston Company's

proposal, specifically, was that the Ledwith Company display in its showroom a Sky King airplane, probably an open-cockpit sport model. The Parker-Weston Company would retain ownership of the airplane until it was sold, although the usual franchise granted by the Parker-Weston Company to dealers stipulated that the dealer have at least one plane and parts for minor repairs in stock. The dealers received a 15% discount on complete planes and replacement engines and 25% on parts. The Ledwith Company would receive a 10% commission on any sales which it originated. The Parker-Weston Company offered to demonstrate planes to prospective customers whom the Ledwith Company might send to the airport for that purpose. Since the servicing of planes and airplane engines required highly trained mechanics and expensive special machinery which the Ledwith Company did not have, the Parker-Weston Company would service any planes sold by the Ledwith Company.

The space required for the display of an airplane by the Ledwith Company was sufficient for the display of three automobiles. If the airplane was displayed, it would be impossible for the Ledwith Company to show a complete line of Lorley automobiles in its showroom. While automobiles could be placed in the company's garage at the rear of the building, the garage was not adapted for display purposes. The president of the Ledwith Company estimated that the rental value of the space required for an airplane was about $10,000 annually.

The Ledwith Company had no salesman who was competent to fly an airplane or had had experience in selling aircraft.

Should the Ledwith Company have accepted the Parker-Weston Company's offer?

Should it have requested a retail dealer's franchise for Sky King airplanes?

13. SPEAR & POTTER

SPECIALTY FUR STORE—APPEAL TO WIDER CLIENTELE

Spear & Potter, an exclusive specialty store, sold men's and women's furs and fur coats of the best quality. It also sold millinery and ladies' cloth coats, principally for the purpose of leveling the sales peaks and absorbing a share of the overhead.

For more than 30 years the store had catered to a wealthy clientele demanding distinctive garments of the best quality.

Although Spear & Potter was the largest fur store in the city, the executives, in 1920, desired to increase the volume of sales. They did not believe, however, that they could extend the volume of sales appreciably in the expensive lines of furs which the store always had carried. It was suggested, therefore, that less expensive furs and fur coats of medium quality be placed in stock and that an effort be made to attract customers with moderate incomes. Members of the organization who favored this plan asserted that the store, because of its large buying power, could compete to advantage with any department store or specialty shop in the city.

The treasurer of the store was convinced that it was impracticable for a specialty shop to cater to more than one type of clientele. He thought that adoption of the plan would result in a marked loss of the store's prestige. The store prided itself on the type of salespeople which it employed. They were accustomed, however, to meeting only wealthy customers and might be unable to sell successfully to persons with moderate incomes.

Catering to two types of customers would complicate buying. The store's furs had been purchased by one member of the firm for many years. He was well known among the members of the New York fur trade and was considered one of the best fur buyers in the country. His years of experience in this store had acquainted him with the demands of its wealthy clientele. It was doubted, however, whether he would be as successful in buying medium-price furs as he had been when purchasing expensive furs.

The location of the store, moreover, made competition with department stores somewhat difficult. Spear & Potter was in an exclusive specialty store section which was several blocks from the department store district.

The executives of Spear & Potter decided to attempt to increase sales by appealing to customers with moderate incomes. A special lot of medium-price fur garments of the best quality obtainable in this grade was placed on display in the store in July, 1920. A sale of this stock was held in August. Publicity was given to the event by the use of half-page advertisements in the leading local newspapers. Prices were featured, and a definite appeal was made to customers with limited means.

This sale was a decided success. Prospective buyers of medium-price fur coats knew the standing of Spear & Potter. When they found that it was possible for them to secure furs there at attractive prices they came to the store. Many customers remarked that when they purchased fur coats they bought principally on the reputation of the firm which sold them, because they realized that they were not competent judges of furs.

It was estimated that 70% of the customers who purchased furs at the August sale were people of moderate means. The remaining 30% were wealthy customers who were not averse to securing bargains. The latter group, however, bought only expensive fur garments which had been reduced in price for this sale.

In the following January the store held another sale in which a distinct price appeal was made. A majority of the purchasers at that sale were women in moderate circumstances. The executives had observed for many years that few of their wealthy customers made purchases during this month. The January sale, therefore, increased the volume of sales in a month when business otherwise would have been dull.

Despite the success of these first trials, the executives were not sure whether they should stock the cheaper grades of furs as regular merchandise.

Should Spear & Potter have attempted to widen its clientele by carrying medium-price merchandise?[1]

14. POWELL & GAYNOR

DEPARTMENT STORE—BASEMENT SELLING[2]

Powell & Gaynor, one of the oldest department stores in a middle-western city, was located in a predominantly specialty store district four or five blocks from competing department stores. It had moved to this location in 1907. The store had expanded gradually until, in 1922, its building covered an entire city block and its annual sales in 92 departments were between $17,000,000 and $18,000,000. The store for several years had occupied only half the block. The building adjoining had been leased in 1913. Henceforth the original building commonly was

[1] See case of the Downing Company, page 310.
[2] See case of the Cadbury Department Store, 1 H.B.R., 428, and 2 H.B.R., 530.

referred to as the "Fourth Street Side," in order to distinguish it from the newly acquired part, known as the "Third Street Side."

From the time when the store was opened in this location, the management had had difficulty in determining the type of merchandise to be sold in the basement. Several different plans had been tried without success. In 1922 the basement was enlarged, and the question again became an issue. The experience of the company in utilizing its basement space had been substantially as follows.

A small house-furnishings department, a hardware department, which carried stoves and ranges, and a sporting goods department were located in the basement when the store first was opened. The original basement, on the Fourth Street Side, also housed the delivery department, the tube room, the employees' lockers, and the customers' transfer desk. From 1907 to 1915 the basement was neglected because the attention of the management was centered on the development of the upstairs departments. The hardware and house furnishings departments met expenses but were unable to make a profit. A heavy loss was sustained for several years by the sporting goods department, and in 1910 it was moved to the first floor, where it met with almost immediate success. Only part of the basement space was actively utilized during the years in which these changes had been made. The newly acquired Third Street Side was used solely for storage purposes.

In 1915 the executives of the store decided that a profitable use should be made of the waste space in the basement. The superintendent of the store reported that a man who for many years had been selling bakery goods and had built up a large clientele in the city could be secured to manage a bakery goods department in the Powell & Gaynor basement. He had been successful in his own business, but because of losses through fire he at that time was seeking a position. Several of the executives were doubtful as to the desirability of adding a bakery goods department to the store; but, since no other satisfactory method of utilizing the waste space was presented, they adopted the superintendent's suggestion.

A bakery goods department accordingly was opened in February, 1915, on the Fourth Street Side of the basement. It was unusually successful for the first seven or eight months, largely because of the personality of the manager, who brought a substantial part of his old clientele to the Powell & Gaynor store. Inasmuch as he had been in business for himself, however, he soon became dissatisfied with department store work; and, when a favorable opportunity was presented to him, he decided to open a store of his own. When he left, sales immediately declined; and, inasmuch as no experienced manager could be secured to fill his position, the department was discontinued.

In 1916 an experiment with a bargain basement was made on the Fourth Street Side of the building. At that time two of the store's largest competitors were operating bargain basements which had proved decidedly successful. A man with many years' experience both as buyer and as manager of a basement store in New York City was secured as basement manager. Women's ready-to-wear garments, including waists, skirts, petticoats, suits, coats, dresses, and house dresses, were purchased in job lots at bargain prices. All out-of-date merchandise, moreover, from the upstairs ready-to-wear departments was sold to the basement. Upstairs department managers were usually unwilling to dispose of merchandise at a loss; and, as a result, bad feeling developed between them and the basement manager. The executives of the store were convinced at this time that the manager was largely responsible for the failure of the bargain basement. He had made several unfortunate purchases in New York on which heavy losses had been sustained; he had displayed little executive ability; and he had been in constant difficulties with other merchandise executives and buyers. Consequently the bargain basement was discontinued.

In 1919 the executives made a further attempt to utilize the unoccupied space in the basement by reopening a basement store on the Fourth Street Side under a new manager. Since the previous failure was attributed largely to poor buying, it was thought that this difficulty might be overcome by having the buyers of the upstairs ready-to-wear departments make all purchases for the basement. In addition to ready-to-wear garments, inexpensive millinery was carried. It soon became evident, however, that the regular buyers could not buy successfully for the basement. The buyers, moreover, used the basement as an outlet for merchandise that did not sell readily in the upstairs departments. The basement store failed to show a profit under this plan of operation; and consequently it was closed early in 1920, all but the millinery department.

In 1921 a cafeteria was opened on the Fourth Street Side in part of the space formerly occupied by the basement store. It was successful from the beginning and expanded steadily. It was under the management of an able woman who also had charge of the upstairs tea rooms and the men's grill. All her departments were profitable; her success was conspicuous in view of the fact that no other department store restaurants or tea rooms in the city made a profit. A short time later, an electrical shop was opened; and a tea, coffee, and jelly department also was established on the Fourth Street Side. The inexpensive millinery department, which had been continued at the time the basement store had been closed in 1920, remained successful. Later, hardware, kitchen utensils, and toys were added to the list of merchandise sold in the basement.

The basement was enlarged in November, 1922, by extending it forward on the Third Street Side. Up to May, 1923, only temporary utilization was made of this additional space; bargain tables were tried for a short time with little success, and an army goods sale which lasted for two weeks was also held there. At this time the executives reviewed the whole problem of the use to be made of the basement and sought to establish a definite policy. The merchandise manager of the store maintained that Powell & Gaynor could operate a bargain basement at a profit. In his opinion the new clientele which would be attracted to the store would buy in the upstairs departments as well as in the basement. He therefore advocated the reestablishment of a large bargain basement under a competent manager who should be given complete control.

The president was doubtful as to the desirability of reestablishing a bargain basement since the sale of cheaper merchandise might affect unfavorably the store's reputation for high-quality merchandise. Both he and the service superintendent agreed that the customers who then composed the store's clientele ordinarily would not purchase basement merchandise. Powell & Gaynor had developed an established reputation for selling only quality merchandise. Seconds or inferior merchandise were never carried, and comparative prices were never used in the store's advertising. Powell & Gaynor was generally conceded to have the highest class clientele of any department store in the city. The policy of the company in offering services and in adjusting complaints was exceptionally liberal.

The service superintendent was convinced that the previous failure of the bargain basement had been caused not so much by poor management as by the fact that a bargain basement was not consistent with the store's upstairs departments. In his opinion the opening of a large bargain basement would lower the store's prestige. He was convinced, moreover, that the store, because of its location, could not compete effectively with other bargain basements.

It frequently had been asserted that price was the only appeal that could be used to induce shoppers to enter a basement and that quality merchandise could never be carried there successfully. The president argued, however, that the history of the basement had shown clearly that only permanent departments which had not been duplicated elsewhere in the store had thrived there. Hence he advocated the establishment in the basement only of such departments, selling merchandise of the same quality as found elsewhere in the store.

15. BIRNHAM COMPANY

DEPARTMENT STORE—USE OF AUTOMATIC VENDING MACHINES

Early in 1929 the general manager of the Birnham Company, a department store located in a large western city, became interested in a new development in selling methods, namely, the use of automatic vending machines for branded merchandise. The Birnham Company sold medium- and high-medium-price merchandise in its upstairs store and also operated a bargain basement. The general manager, believing that the use of vending machines by the Birnham Company offered possibilities of securing additional sales volume at a low selling cost and that the machines would have good publicity value, asked the research director to study the problem and report his conclusions.

The vending machines in question were produced and distributed by the Consolidated Automatic Merchandising Corporation. The talking automatic merchandising machine and the change maker, which was designed primarily for use with the former, were recent developments. Only with the perfection of these two, which were designed to vend cigarettes, candy, toilet articles, groceries, and miscellaneous standard packaged mer-

chandise, had much interest been exhibited in automatic merchandising methods. In the talking automatic vending machine was a record which enabled it to reproduce an expression such as "Thank you" and an advertising slogan whenever a sale was made. Each unit of a vending machine was approximately 8 inches wide, 15 inches deep, and 7 feet high.

The capacity of the vending machines varied with the size of the package sold. A unit, which was designed for one article, had a capacity of 85 packages of cigarettes, for instance. It required seven minutes to load a unit completely. The machines would be loaded each morning, but in order to avoid having the stock of merchandise in the machines exhausted periodic inspection during the day would be necessary.

The operation of the vending machine by the customer was a simple process consisting of the insertion of the required coins and the turning of a lever. Automatic change makers provided the kinds of coins needed. The time required for a transaction did not average over 30 seconds. The machines could take nickels, dimes, and quarters only; hence if an odd price such as 29 cents were used it was necessary to provide change with each package. The usual procedure in such cases was for the person loading the machines to enclose the change in as mall envelope attached to each package with a rubber band. Thus when a customer purchased a 29-cent article she inserted three dimes, turned the lever, and received the package, to which an envelope containing 1 cent was attached. The vending machines did not give receipts.

The packages could be placed in the machines either wrapped or unwrapped. Since the machines had glass fronts, if the packages were unwrapped the customer could see readily what the machines contained. A small placard showing an illustration of the merchandise and indicating the price and the coins to be inserted ordinarily was placed on the front of each unit.

Vending machines could not be purchased outright from the manufacturer. Service was available from the manufacturer's sales office, which was located in the same city as the Birnham Company.

Among the first extensive uses of the talking automatic vending machine was that made in 1927 in New York City in one cigar store of a large chain. A battery of 18 machines was installed in this store during November, 1927, for the sale of

standard brands of cigarettes. In conjunction with the vending machines, automatic change makers were installed also. During a period of 230 selling days the average number of daily transactions for the entire battery of 18 machines was 773. An executive of the company operating this cigar store stated: "I should like to make it clear that we are not trying out machine selling with a view to eliminating our clerks. Our whole idea is to supplement them. We want to take from them the burden of what might be called mechanical selling with a view to improving service to customers who really require their attention. Analysis of our sales shows that about 60% of the clerks' selling is practically automatic." This company subsequently had installed automatic vending machines in a number of other stores in its chain.

A report from the Consolidated Automatic Merchandising Corporation stated that the vending machines were being installed in the basements of a number of department stores for the purpose of attracting customers. This same report gave the names of several stores that had contracted for the machines and the types of merchandise which they planned to sell. One store planned to sell cigarettes and also 26 varieties of 10-cent groceries. Another store planned to use the machines in selling 20 different toilet articles at prices ranging from 25 cents for 3 articles to 75 cents each. Other stores planned to use the machines for vending standard brands of cigarettes and also for confectionery. The actual installations of the machines in these stores had not been completed.

In May, 1929, the research director of the Birnham Company received a report from an associated store regarding the operation of vending machines in its basement. This store was selling by means of vending machines six varieties of 5-cent candy bars which cost between 30 cents and 35 cents a dozen. Sales over a period of a month had averaged 900 bars weekly. At about the same time a member of the research staff assigned to assist in the study of this problem submitted a report regarding the use of the machines in the company's upstairs store. This report was in part as follows:

> "The items which we at present could sell in this way are chiefly cigarettes and candy. In regard to cigarettes it must be remembered that a license carrying a small fee is required and that the law regarding the sale of cigarettes to persons under 16 years of age is enforced strictly. Since we do not carry either cigarettes or candy, the result-

ing sales would be a direct increase in volume. Both are easily bought and could be kept in containers which would eliminate danger of spoilage.

"The success of these machines in Store A of this city, where the machines are used to vend candy, can be judged by the following figures (Exhibit 1).

EXHIBIT 1

BIRNHAM COMPANY

Report of Store A: Operation of Automatic Vending Machines May 7 to May 11, inclusive, 5 Operating Days

Item	Selling Price	Number of Transactions	Gross Receipts
A	$.05	719	$35.95
B	.05	141	7.05
C	.05	199	9.95
D	.05	320	16.00
E	.05	230	11.50
		1,609	$80.45

Gross Receipts	$80.45
Less Cost of Merchandise	48.27
	$32.18
Less Leasing Cost, 5 Days	5.50
Operating Profit	$26.68

"The Consolidated Automatic Vending Machine Corporation has made arrangements with manufacturers whereby articles packed for these machines can be bought at prices which give a very favorable margin. The compactness of the machines should allow very high sales per square foot; a substantial profit can be obtained at a low cost; and the saving in time should contribute to increase the efficiency of the salespeople.

"In case the management desires to install some of these machines in the upstairs store, the following locations have been selected. The best location is at the head of the stairs leading to the second floor. This location gets the flow of traffic to the rest room, to the telephone booths, and to the second floor. For this location a battery of five machines and a change maker is recommended, consisting of three units which would handle candy and two units to handle merchandise. The two merchandise units would be flexible enough to permit selling different classes of merchandise as desired. These machines can be adjusted to handle merchandise within a price range of 5 cents to 50 cents.

"The next most desirable location is on the first floor by the elevator located near the silk department. At this point the space is sufficient to accommodate a battery of only three machines. The other location is on the street floor by the elevator in the women's shoe department. This location offers an opportunity for a battery of

five machines and a change maker; and, according to reports, the flow of traffic at this point is sufficiently heavy to support such a battery.

"The following schedule (Exhibit 2) shows that on the items which permit a good percentage of mark-up the first few sales each day cover the entire rental expense.[1]"

EXHIBIT 2

BIRNHAM COMPANY

Number of Sales per Diem Required to Cover Rental of One Unit, When Sales Price Includes Indicated Percentage of Mark-up

Sales Price	15%	20%	25%	30%	35%	40%	50%	60%
10¢	13	10	8	7	6	5	4	4
15¢	9	7	6	5	4	4	3	3
20¢	7	5	4	4	3	3	2	2
25¢	6	4	4	3	3	2	2	2
30¢	5	4	3	3	2	2	2	2

Examples

13 10¢ Sales	$1.30
Daily Rental Cost (Based on 300 Days Operation at $60 per Annum per Unit)	.20
Net Return	$1.10
13 10¢ Sales	$1.30
Less 15% Mark-up	.195
Cost of Merchandise	$1.105
3 30¢ Sales	$ .90
Daily Rental Cost	.20
Net Return	$ .70
3 30¢ Sales	$ .90
Less 25% Mark-up	.225
Cost of Merchandise	$ .675

In addition to the recommendation in this report the research director also gave attention to the possible installation of a battery of machines in the basement for the sale of toilet articles. The toilet goods department of the company was located on the main floor, occupying in May, 1929, approximately 1,600 square feet. Previous to 1929 about 1,100 square feet had been devoted to this department. Operating statistics for the toilet goods department for 1928 had been as shown in Exhibit 3.

[1] Annual rentals of machines:

One Unit of Vending Machine without Talking Attachment	$60
One Change Maker	$60
Talking Attachment (One Required for Each Battery of 5 Machines)	$32

EXHIBIT 3

BIRNHAM COMPANY

Toilet Goods Department—Operating Statistics for 1928
(Net Sales = 100%)

Net Sales	$160,000
Gross Margin, including Cash Discounts	31.3%
Selling Salaries	6.6%
Total Operating Expenses	27.5%
Number of Sales Transactions	150,000
Floor Area	1,100 square feet
Stock-turn	4.5 times
Number of Salespersons (Average)	11

The Birnham Company did not have a toilet goods department in its bargain basement. A passageway approximately 12 feet in width between two ells of the basement selling space, although too narrow to allow the installation of counters and shelves for the display and sale of merchandise, was regarded as a suitable location for the vending machines. Two outside entrances to the basement store were located at the outer corners of the ells, and the door leading to the women's rest room was in the passageway. There was room for 30 machines.

In giving further consideration to the problem, the research director of the Birnham Company requested the vending machine company to suggest a list of toilet articles stocked by the store with retail prices between 10 cents and 50 cents that might be sold in vending machines. The list submitted was as shown in Exhibit 4.

EXHIBIT 4

BIRNHAM COMPANY

Toilet Articles Salable in Automatic Vending Machines

Article	Number of Brands	Total Number of Sizes and Varieties
Tooth Pastes and Powders	15	22
Shaving Preparations	16	29
Talcum Powders	11	30
Nail Polishes and Accessories	5	23
Toilet Creams	13	32
Toilet Waters	2	2
Toilet Lotions	3	5
Shampoos	4	4
	69	147

EXHIBIT 5

BIRNHAM COMPANY

Analysis of Sales of Selected Toilet Articles Considered for Sale in Automatic Vending Machines

Brand*	Manufacturer's Suggested Selling Price	Birnham Company's Selling Price	Mark-up (Percentage of Cost)	Period Covered (Months)	Total Sales (in Pieces)
Tooth Pastes					
A	$.50	$.39	17%	4	217
B	.40	.29	15	5	47
C	.50	.45	29	5	25
	.25	.25	33	5	91
	.10	.10	33	5	24
D	.50	.39	25	5	103
	.25	.25	37	5	141
E	.35	.32	25	5	156
F	.40	.39	25	5	162
G	.40	3 for $1	29	5	809
H	.50	.39	31	5	99
I	.25	.23	28	5	248
Talcum Powders					
A	$.30	$.23	25%	5	20
B	.25	.25	33	5	24
C Violet	.25	.25	33	5	14
Unscented	.25	.25	33	5	16
Carnation	.25	.25	33	5	26
Nail Polishes and Accessories					
A	$.35	$.35	33%	4	59
Cold Creams					
A Cold Cream	$.35 jar	$.32	26%	5	133
Vanishing Cream	.35 jar	.32	26	4	55
B Cold Cream	.50 jar	.49	37	5	54
	.25 tube	.21	25	5	70
	.10 tube	.10	37	5	12
Vanishing Cream	.25 tube	.25	37	5	29
C Cold Cream	.50 tube	.50	33	7	66
Vanishing Cream	.50 tube	.50	33	7	97
Toilet Waters					
A	$.50	$.45	25%	5	19
Toilet Lotions					
A	$.50	$.39	17%	5	89
B	.50	.50	33	5	56
Shampoos					
A	$.45	$.25	20%	5	72

* Letters designating brands do not refer to same brand throughout exhibit.

On receiving this list, the research director had an analysis made of sales of these articles in the toilet goods department. The results, shown in Exhibit 5, were obtained from the company's stock control records. Only those items were included which the Birnham Company sold in appreciable quantities.

The research director also analyzed the sales of several toilet articles not included on the list submitted by the manufacturer's representative, but which he thought might be sold in the vending machines. Sales of these items were as shown in Exhibit 6.

EXHIBIT 6

BIRNHAM COMPANY

Analysis of Sales of Additional Toilet Articles Considered for Sale in Automatic Vending Machines

Item	Selling Price	Total Sales (in Pieces)	Period Covered (Months)
Sachet Rose Bag	$.10	2,600	4
Shoe Cleaner	.50	600	1
Deodorant	.50	140	2
Compact Refill			
Natural Color	.50	181	6
Rachel Color	.50	129	6
Compact	.50	250	6
Rouge	.50	162	6

The Birnham Company in 1928 had sales of approximately $12,000,000, of which 55% were charge sales and the remainder cash and C. O. D. sales. The bargain basement of the Birnham Company gave the same services as the upstairs store. While executives of the Birnham Company anticipated a little trouble in the operation of the vending machines due to mechanical defects and to mistakes of customers, they believed that the floormen could take care of any difficulties that might arise.

What recommendations should the research director of the Birnham Company have made regarding the installation of automatic vending machines?

16. GREAVES COMPANY

GROCERY CHAIN—SALE OF MEATS[1]

In the autumn of 1925 the executives of the Greaves Company, a chain grocery store organization, contemplated adding a full line of staple meats to the merchandise already sold by the company. This merchandise consisted of high-quality staple groceries, dairy products, and citrous fruits and dry vegetables.

During the preceding few years the Greaves Company had increased rapidly the number of stores operated until it had in its chain about 1,500 stores with annual sales of approximately $45,000,000. The stores were located within a radius of 300 miles from the company's executive office and warehouse. The territory served included portions of several states, the most important segment of the territory being in Ohio.

In the territory served by the Greaves Company no chain grocery stores were offering meats. Locally, therefore, meat was sold to consumers by unit meat or grocery stores or by chain meat markets. Officials of the Greaves Company had been aware for some time that chain grocery store organizations in other territories had been promoting the sale of meats in their stores with apparent success.

It was not alone these favorable reports which led the officers of the Greaves Company to take under advisement the question of selling meats. The officers were inclined to believe that the chain store selling of groceries in the United States had reached a definite turning point so far as the buying habits of consumers were concerned. It was believed that there was a widespread desire on the part of customers to be able to purchase all food supplies at one store. Even without regard to the probable action of competitors, the officers of the Greaves Company believed that the sale of meats in conjunction with groceries would stimulate sales of the latter, with consequently increased effectiveness of store operation. Finally, the Greaves Company was in a favorable position to acquire a local well-established profitable chain of 20 meat markets.

For the purpose of expanding the range of foodstuffs sold in its stores, the Greaves Company also was contemplating install-

[1] See case of the Penniman Company, 2 H.B.R., 308.

ing pastry sections and fresh fruit and vegetable sections. The meat market chain already was operating fresh fruit and vegetable sections. Acquisition of this chain, therefore, would facilitate the task of the Greaves Company in introducing such goods in its stores. The buying organization of the meat chain was experienced in securing and handling fresh fruits and vegetables.

Among its groceries, the Greaves Company stocked both manufacturers' brands and its own brands. The company's private brands, as a rule, had been developed only on products for which there were no outstanding manufacturers' brands enjoying widespread demand.

It was the company's policy not to allow itself to be undersold by local competitors. Although adherence to this policy often meant selling individual items at extremely low margins, the executives were convinced that price was a dominant factor when consumers decided where to buy groceries. Unless its prices were as low as those of competitors, therefore, the company did not believe it could maintain the volume of sales necessary to profitable operation. On the other hand, quality was never overlooked; the company's object was to provide merchandise of uniformly dependable grade. Ability to meet price competition, therefore, depended on large scale effective buying, economical selling, and the reduction of operating expenses to a minimum. No credit or delivery services were offered.

The groceries, dairy products, citrous fruits, and dry vegetables were purchased centrally by a group of seven buyers located at the company's main office. The main office grocery buyers were guided by the movements of stocks through the warehouse. Subject to seasonal and other special influences, the buyers placed orders on the basis of predetermined minimum stocks established for each item. Warehouse stock control records were kept by means of a punched card tabulating system, which depended basically on the determination of standard units, all shipments being expressed in terms of these units. For each commodity a standard unit was determined by computing the total sales of that product for a year, expressed in units of packing, such as cases, sacks, or barrels, and dividing the sales by the total number of stores. The resulting figure was divided by 12 to yield a monthly figure for shipments of the commodity, and the monthly figure was divided by the usual number of times a month shipments of the product were made to stores. The final figure

for total shipments made at each delivery interval then was adjusted to the most nearly corresponding unit of shipment offered by the vendors of the product. If the discrepancy between a shipment unit of the Greaves Company and that of the vendor was large, the latter was asked to provide smaller, or otherwise more suitable, units of sale. Failing to secure such an adaptation, the company itself repacked the goods on arrival, so as to make them suitable for stock control purposes.

Seventy-five per cent of the goods purchased were delivered by the vendors directly to the warehouse, and stored for weekly delivery to the individual stores in accordance with orders received from the store managers. Goods were charged to the stores from the warehouse at both cost and retail prices, although the invoices delivered to the store managers carried only retail prices.

The remaining 25% of purchases consisted of such items as milk, eggs, butter, crackers, and some products the manufacturers of which maintained local stocks for direct delivery. On goods delivered directly to the individual stores, the vendors made out invoices in such a way that the store managers did not know the net cost of the merchandise. All such invoices, after being checked as to quantities delivered, were paid by the central office. The managers of individual stores thus were held responsible for all goods received by them. They were charged for those goods either at retail selling prices, in case of deliveries made from the company's warehouse, or at vendors' advertised retail prices, for goods delivered directly by the vendors. For the latter type of goods, store managers were informed of the Greaves Company's retail prices by means of letters from the central office.

At this office was centralized the control of sales and operations. The Sales and Operating Committee, composed of five executives, was responsible for all operations after the goods left the warehouse, and for prices, display, and advertising, as well as for employment of field personnel, location of stores, and layout of merchandise within the stores. Control over the store operations was maintained through a field organization representing the Sales and Operating Committee. Directly responsible to this committee were four district managers, under each of whom were three district supervisors. Each district supervisor in turn had as assistants from 5 to 8 superintendents, each superintendent being responsible for the operation of from 15 to 20 stores. All members of this field supervisory force were paid straight salaries.

Store managers were paid weekly salaries plus commissions, the total weekly wage averaging about $47.50.

Store managers, subject to the supervision of the superintendents and to the instructions of the central office, were held responsible for the economical operation of their stores. Each manager, under these restrictions, employed his assistants, ordered goods from the warehouse, and was accountable for all merchandise charged to him. No goods were charged until the store manager had receipted the invoice; thereafter, he was expected to have either the goods themselves or their equivalent in cash to his credit. Cash was deposited daily in designated banks, and a weekly report was made out in each store. The form used provided for a cash report; wages paid; minor expenses, that is, expenses of less than $2 per item; and a merchandise recapitulation. In addition, provision was made for recording price changes, errors in invoices or deliveries, damaged goods, transferred goods, and containers returned for credit or for salvage.

For purposes of control the central office maintained records according to individual stores for monthly gross margin and quarterly net profit. No departmentization of merchandise accounts by stores was undertaken. For the guidance of the central office executives, monthly reports were made up analyzing shipments to stores into 50 classes of merchandise. These reports showed the trend of sales for the company as a whole according to merchandise groupings. No similar analysis was made for individual stores, however, unless special circumstances made such reports necessary.

Reports were made monthly which showed for each superintendent the total sales and gross margins of the stores under his control. If a superintendent's showing in regard to sales or gross margin was unfavorable, the central office then proceeded to analyze the shipments to each store under that superintendent in order to detect the specific class or classes of merchandise which were unsatisfactory. This plan prevented the making of needless analyses of shipments, while assuring means of tracing the causes of shortcomings.

A summary profit and loss statement for the Greaves Company for the year 1925 is shown in Exhibit 1.

Financially, the Greaves Company was well able without seeking new capital to acquire the chain meat market company and to provide for the necessary changes in store location, buildings, and equipment. In the case of each market, either the company would arrange to keep the established location, adding sufficient space to stock and sell the usual line of groceries, or it would relocate the market either in conjunction with an established Greaves store or in a new store secured for that purpose. It was estimated that such a combination store would require slightly more than twice the space needed for groceries alone.

EXHIBIT 1

GREAVES COMPANY

Condensed Operating Statement and Surplus Account for Year Ending December 31, 1925

Sales	$44,524,754
Less:	
Cost of Sales	34,085,170
Gross Profit	$10,439,584
Deduct:	
Operating, Selling, General, and Administrative Expenses	8,370,351
	$ 2,069,233
Add:	
Interest, Dividends, and Rents Received, Less Interest Paid	55,470
	$ 2,124,703
Deduct:	
Depreciation on Fixed Assets	291,104
	$ 1,833,599
Deduct:	
Provision for Federal Taxes	232,992
Net Profits for Year Carried to Surplus	$ 1,600,607
Add: Surplus December 31, 1924	1,055,868
	$ 2,656,475
Add:	
Miscellaneous Net Income	65,861
	$ 2,722,336
Deduct:	
Dividends	911,927
Surplus—December 31, 1925	$ 1,810,409

If it commenced to sell meats, the Greaves Company expected to install meat sections in a substantial number of its stores as rapidly as feasible. To make possible the establishment of a meat division, it was estimated that an individual store should be centrally located and should have a sales volume of at least $1,000 weekly. More than 100 of the company's stores filled these requirements. It was estimated that in stores selling both meats

and groceries, total sales would be divided about equally between the two sections.

To expand its meat business beyond the 20 original markets would compel the company to face a number of obstacles. The handling of meat in a retail store was quite different from the selling of groceries. In addition to physical requirements for refrigeration, handling, and effective display, there were important considerations involving personnel. The supply of competent butchers who could act either as managers of meat sections or as meat cutters in these sections was scanty. Effective cutting and preparation of meat required skilled employees. The carcass of an animal such as a beef steer, for instance, comprised many different cuts of meat, each cut bringing a different retail price.[1] Losses from careless or unskilled cutting might easily run as high as 5% of net meat sales.

Furthermore, meat was purchased, warehoused, and delivered to the retail markets in large pieces, sometimes including entire carcasses. It was impossible to foretell the number and poundage of the various cuts in a large piece of meat. Except for a few items such as packaged sausage, no sufficiently accurate standardization of meat shipments could be made to permit of applying retail prices to meats delivered to stores.

Some meat could be purchased locally, but much of it would be ordered in car lots from the Chicago plants of large meat packers. Delivery in car lots could be made directly to the warehouse of the chain meat market. Meat already was being purchased centrally by three buyers for the chain meat market company. These buyers, as well as the warehouse which the meat chain was using, would be retained by the Greaves Company. Deliveries from the meat chain's warehouse, however, could not be combined readily with deliveries from the Greaves Company's warehouse. The delivery of meats required trucks of a different type from those used for groceries; hence it was expected that the fleet of trucks already in use for delivering meat would be retained independently of the Greaves Company's trucks. Meat deliveries to stores presumably would be made three times a week, while grocery deliveries usually were made weekly. Stock-turn in meats was at the rate of once a week, whereas, for the Greaves Company's operations, the rate of stock-turn was once in five weeks for the organization as a whole, although merchandise remained in the stores themselves for an average of only two and one-half weeks.

[1] Market quotations for retail prices of beef on a typical day included the following items:

"Steak—Sirloin 70 cents a pound, tenderloin 90 cents a pound, porterhouse 75 cents a pound, top of the round 60 cents a pound, bottom of the round 40 cents a pound.

"Roasts—Sirloin 60 cents a pound, sirloin roll 60 cents a pound, first two ribs 55 cents a pound, first three ribs 45 cents a pound, fourth and fifth ribs 35 cents a pound, fifth rib 30 cents a pound, face of rump 40 cents a pound, heel of rump 35 cents a pound, back of rump 35 cents a pound, chuck roast 35 cents a pound, bottom of the round 40 cents a pound, top roll 30 cents a pound, pot roast 30 cents a pound."

On the basis of the operations of the meat chain the officials of the Greaves Company estimated that a gross margin of about 25% could be obtained on meats, provided the store personnel was fully effective. Store expenses, including prorated indirect expenses of all kinds, were estimated at 20% of sales for meats, as compared with 18% for groceries. Store labor alone was figured at 10% of meat sales and at 8% of grocery sales. It was possible, however, that this latter figure could be reduced somewhat in combination meat and grocery stores if the sales of groceries were increased. Officials of the Greaves Company expected that in combination stores the sales of groceries might increase 10% because of the larger number of people attracted to these stores. Such an increase could be handled without additional store employees.

While the expenses of local independent unit meat markets were not known, it seemed probable that such stores required gross margins of from 25% to 30% of sales.[1] The Greaves Company, offering no credit or delivery facilities, probably could not compete effectively with unit markets if it sought an average gross margin of over 25% of net sales. The company's prices, furthermore, would have to be at least as low as those of competing chain meat markets or of other chain grocery stores which might follow the company's lead in establishing meat sections.

In the event that the Greaves Company proceeded with the plan, it was contemplated that the typical organization in a combination store would be as follows:

Groceries	Meats
	Manager
Store Manager	Cutter
2 Assistants	2 Clerks (One to Sell Fresh
1 Boy	Fruits and Vegetables)
	Cashier

[1] In 1924 it had been reported that "The most typical gross margins of retail meat dealers range from 23 to 27% of sales. The margins of the middle 50% . . . range from 19.50 to 28.50 % of sales."—Northwestern University Bureau of Business Research, *Expenses, Profits, and Losses in Retail Meat Stores*, page 14.

This type of organization was suggested on the assumption that the chain meat company's supervisory organization, which paralleled closely that of the Greaves Company in form, would be retained. Thus each combination store would have two managers, one for groceries and one for meats. The manager of the meat section would be supervised by an organization separate from that supervising the grocery section up as far as the principal executives.

Should the Greaves Company have undertaken the sale of meats in its stores, acquiring the meat market chain as a facilitating measure?

17. STARCROSS COMPANY

VARIETY CHAIN—OPERATION OF LUNCH COUNTERS

Early in 1929 the Starcross Company, which operated approximately 110 stores in as many different cities, considered the advisability of adding lunch counters in its stores. The stores generally were located in or near the principal shopping centers in their respective districts.

In 1928 the Starcross Company had sales of approximately $25,000,000. The company sold women's and misses' ready-to-wear, underwear, hosiery, jewelry, domestics, yard goods, draperies, candy, and men's and boys' clothing and furnishings. All the merchandise sold by the company was priced under $5. Sales of the individual stores ranged from $100,000 to $1,000,000 annually. All purchasing for the company was done by 15 buyers who were located at the central office. The buyers did not buy merchandise specifically for individual stores, but arranged with manufacturers for supplying the company's estimated requirements for a season or a year. The manufacturers maintained stocks and shipped merchandise directly to the stores. Store managers, guided by lists of merchandise which they were required to have in stock at all times, sent their orders to the central office.

Merchandise was charged according to departments to the stores at cost and retail. Total store sales were reported daily, sales by departments were reported weekly, and mark-downs by departments were reported at the end of each month. For purposes of computing the gross margin of a store for a period,

the retail value of a store's stock as a whole was reduced to a cost value by applying the percentage which the cost value of the entire beginning inventory, plus the cost of total purchases, bore to the retail value of the entire beginning inventory, plus the retail value of total purchases, less total mark-downs. The initial purchase mark-ups on different merchandise items in some departments ranged from 10% to 60% of the selling prices of the items; the average initial purchase mark-ups for the company's 20 departments ranged from about 28% to about 40%; while for the whole company the initial purchase mark-up was approximately 33% of the retail value of purchases. Mark-downs were approximately 1.5% of sales.

Executives of the company believed that the company could install at least 20 lunch counters during 1929, sales of which they estimated would be between $500,000 and $750,000. During the first year they proposed to install lunch counters only in the company's larger stores. In some of the new stores which were to be opened definite provision would be made for lunch counters. In established stores, however, space would have to be secured by reducing the area used by other departments, presumably those departments in which the sales volume was declining. Relocation of departments probably would be necessary also. The executives of the company proposed to locate the lunch counters toward the rear of the stores, adjacent to the kitchens. The executives did not wish to use the valuable selling space at the front of the stores for non-selling purposes. Moreover, it was desirable that the kitchens be so located that the odors of foods in the process of preparation would not fill the store. In the opinion of the executives, customers who would patronize the lunch counters would enter the stores with that idea in mind; hence it would be unnecessary to locate the lunch counters in the most accessible parts of the stores.

In considering the advisability of installing lunch counters in its stores, the executives of the Starcross Company found that several competing variety companies already had installed lunch counters, but they did not know what success these other chains were having with their lunch counters. An analysis of lunch counter operations indicated that a gross margin of between 50% and 60% of sales was possible, provided the menu was kept relatively simple. Exclusive of preparation costs, which the executives were unable to estimate, they believed that the operating

costs of the lunch counters would not exceed the operating costs of other departments in the store.

In regard to food preparation costs, the executives knew that these would depend on the variety of dishes offered. It seemed necessary that the menu for a lunch counter should include hot and cold beverages, sandwiches, soups, meats, fish, salads, and desserts, all of which required some preparation. If these dishes were to be offered, a kitchen would be required in each store. Presumably all the foods except bread and pastry would be prepared in the store itself. All foods probably would be purchased locally.

Although the manager of a lunch counter would be directly responsible to the store manager, the executives knew that the success of a lunch counter would depend almost entirely on the ability of the lunch counter manager. The executives thought that a special division comprising a director and two superintendents, one for each of the company's two districts, probably would have to be established in the central office to direct the activities of the food departments. Such a division would be concerned with selection of proper equipment, training of managers, methods of food preparation, supervision, and suggestions for menus. This division would act in an advisory capacity to the district managers, superintendents, and store managers.

In seeking to plan an accounting system for the lunch counters the executives reasoned as follows. Much of the food used, such as milk, meats, fruits, and some vegetables, would be purchased daily, and should be so purchased if deterioration was to be avoided. Other foods, such as canned goods, flour, coffee, and some vegetables, could be purchased in greater quantities than the daily requirements and stored. Apparently the quantity of food, exclusive of supplies in the storeroom, carried over from one day to another would not be large and would not vary appreciably from day to day. Since the food sold during a day would consist almost entirely of food purchased that day and of food transferred from the storeroom to the lunch counter, the executives thought that the cost of merchandise sold during the day might be determined from records of daily purchases and transfers from the storeroom. They proposed, therefore, to maintain a cumulative record of daily food costs and sales. Although they were not certain, they believed that the cumulative food costs should not exceed 50% of the cumulative sales. They proposed also to

maintain a record of food and supplies in the storeroom. The executives knew of no way of separating preparation costs from selling costs. Employees commonly did both types of work at different times during the day. The only record of pay roll expenses which they proposed to keep was the total disbursement for wages.

Should the executives of the Starcross Company have installed lunch counters in the company's stores?

18. JEWEL TEA COMPANY, INC.[1]

WAGON RETAILER—TYPE OF BUSINESS

The Jewel Tea Company, Inc., founded in 1899 as a direct-to-the-consumer distributor and manufacturer of a limited line of groceries, including coffee, tea, spices, cereals, and laundry and toilet products, in 1928 had sales of approximately $15,971-000; and its net gain in that year was approximately 9.5% of net sales. Sixty-four regular grocery items were sold under the Jewel trade-mark. Several of these were manufactured by the company at its Chicago plant; the others were manufactured for the company according to its specifications.

The Jewel Tea Company, Inc., reached its customers in their own homes through salesmen travelling established routes with motor trucks. A salesman called on each customer every two weeks, taking orders for groceries to be delivered at the next regular call, and delivering the groceries ordered two weeks before. By 1929 the company operated 1,190 routes, reaching 780,000 customers. The 1,190 motor routes were operated from 78 branches and covered approximately 6,000 towns in 32 states, the densest distribution being in the East and Middle West, with some scattered distribution in the South and in Colorado, Wyoming, and California.

In 1928 the average sales per week per truck were $277.68; and the average sales transaction was $1.44, an increase from $1.37 in 1927. Motor truck operating costs in 1928 were $9.70

[1] This statement was prepared from a pamphlet sent to the stockholders of the Jewel Tea Company, Inc., in August, 1929, entitled *The First Thirty Years, 1899–1929*.

per week per truck. The terms of all grocery sales were cash on delivery, exception being made, however, to allow credit for one delivery to customers who had traded with the company long enough to establish a record of reliability.

A distinctive feature of the company's method of doing business was the sharing of profits with customers by the advance premium plan. With each purchase of groceries the customer received a profit sharing credit to be applied on the purchase price of any premium she selected from those offered by the company. This premium was advanced to her with the first purchase and was paid for by the credits she received on this and subsequent purchases. The amount of profit sharing credit varied according to the product. The premiums consisted primarily of nationally advertised house furnishings, such as Haviland china, Manning-Bowman electrical equipment, and Pyrex glassware. In 1928 the standard line of premiums comprised 96 articles.

As a means of sales promotion the company distributed to customers the *Jewel News*, a monthly 8-page publication. As another means of sales promotion the company operated a Home Service Division, a model kitchen and home-making laboratory in charge of a home economics expert with a group of travelling food specialists, who, in 1928, gave 409 demonstrations in territory covered by 42 branches, with a total attendance of more than 20,000 people.

Was the Jewel Tea Company, Inc., justified in planning an aggressive expansion of its existing type of business in competition with grocery chains?

19. MILLBAY COMPANY

VARIETY CHAIN—SALE OF WOMEN'S GARMENTS

During 1929, executives of the Millbay Company, a chain of variety stores, raised the question of carrying women's and misses' dresses at prices from $1.98 to $14.98, and women's and misses' coats from $4.98 to $24.98. In a few of its leased properties the company had second floor space not adapted to the sale of merchandise already carried by the company, and possessing small sublease value. The addition of ready-to-wear departments would enable the company to use such space and would round

out the lines of clothing which the company already sold. It was proposed to sell the dresses and coats under a single brand name, not that of the Millbay Company.

The Millbay Company sold such merchandise as domestics, yard goods, hardware, house furnishings, hosiery, underwear, millinery, dress goods, men's and boys' clothing, and radio supplies. With the exception of millinery and radio supplies, no item was priced over $1. On January 1, 1929, the company was operating approximately 100 stores in the eastern part of the United States. Sales in 1928 had been about $25,000,000. Sales of the individual stores ranged from approximately $100,000 to approximately $1,000,000.

All purchasing was done by ten buyers who were located in the central office in New York. The capacities of buyers were judged by the sales volume, gross margin, mark-downs, shipping expenses, and rate of stock-turn of their departments. The buyers' chief functions were to secure appropriate new merchandise, to make arrangements with manufacturers, to reorder as needs arose, and to serve as contacts between the stores and the manufacturers. The buyers did not make purchases specifically for individual stores but arranged with manufacturers for supplying the expected requirements of the whole company for a season or a year.

Twice a year the buyers made up lists of merchandise that every store should have in stock and sent the lists to the store managers. The number of different items on the merchandise lists varied according to the sales volumes of the stores. An item was included on a list only when every store with similar sales volume had a demand for the item. The lists were revised constantly; whenever sufficient demand for an item had developed it was included on the list, and whenever sales of an item decreased substantially it was dropped. The store manager was responsible for having in stock all the items on the merchandise lists. The items on the merchandise lists represented about 70% of the company's total sales. The remaining sales consisted mainly of unlisted merchandise for which the demand was limited to certain localities.

Less than 5% of the merchandise sold by the company was warehoused. Store managers had no direct contacts with manufacturers but made out orders for merchandise and sent them to the central office; the latter forwarded the orders to the manu-

facturers. Merchandise was shipped directly to the stores, where the invoices were checked against the merchandise received. After the merchandise was inspected and approved by the store managers, the invoices were sent to the central office for payment. Any questions involving returns, allowances, or quality or quantity of merchandise received were handled by the buyer for the department concerned. Rejections of merchandise averaged less than 5% of purchases.

In 1928 the rate of stock-turn was over 6 times on retail value. The Millbay Company had found it unnecessary to hold periodic clearance sales. Store managers were instructed to watch constantly for accumulations of slow-selling or shopworn merchandise and to place this merchandise on bargain tables at such reduced prices as the managers considered necessary. Mark-downs in 1928 had been approximately 2% of sales. The store managers entered mark-downs in duplicate on mark-down books which were provided for each department. They recorded the date, quantity, style number, description, manufacturer, original selling price, former price, new price, and reason for the mark-down. At the end of the month the original sheets of the mark-down records were sent to one of the two district offices, approved by the district manager or the district superintendent, and then forwarded to the company's central office. There was a district manager in each district. In one district, the manager was assisted by two district superintendents each of whom visited several times yearly the 25 stores under his supervision. The superintendents supervised all phases of store operation such as completeness of stocks, window displays, and mark-downs. In the other district each of 3 checkers analyzed the stocks of about 15 stores for completeness of stocks of listed merchandise; the district manager was responsible for other supervisory activities such as window displays and mark-downs.

When the company leased buildings for stores, it frequently was required to take second-floor space in addition to the main floor and basement. The company usually sold hosiery, underwear, toilet goods, leather goods, and jewelry on its main floors, and carried men's and boys' clothing, house furnishings, yard goods, and hardware in the basements. In many cases the company had been able to sublease the second floors of its buildings for office space or other uses. Lease values of the second floors were 20% to 40% of the first-floor values. In 1929, however, the company had ten buildings in which the second floors had not been leased.

Although there were several ready-to-wear chains in operation which sold merchandise at the range of prices under consideration by the Millbay Company, the company knew of only two variety chain companies that sold ready-to-wear. One of these companies used second-floor space only, while the other used either second-floor or main-floor space, depending on the particular store.

Executives of the Millbay Company found it possible to purchase dresses and coats at prices as low as those paid by most of the competitors, and estimated that the ready-to-wear departments should be able to secure sales of $500,000 during 1930. Operating costs of the ready-to-wear department were estimated at between 27% and 28% of net sales, a ratio higher than that of the company's other departments. The executives believed that an initial mark-up of 34%, including discounts, was obtainable on women's garments. The average mark-up for other types of merchandise was from 31% to 32%. Although the usual discount for ready-to-wear was 8%, the company preferred to receive the discount of between 2% and 3% which it secured usually on other merchandise. Stores were charged with the billed cost of merchandise before discounts.

The executives estimated that mark-downs on ready-to-wear would be 4% of sales. In 1928 the company had spent approximately 1% of sales for advertising; the executives believed that an expenditure of 3% would be necessary for ready-to-wear. It would be necessary to pay ready-to-wear salespeople higher weekly wages than those paid in other departments. The company did not contemplate making alterations for customers.

For its regular merchandise the company usually committed itself for a season's or a year's requirements, and the manufacturers maintained factory stocks from which store orders were filled. In order to secure the lowest possible prices and the highest possible quality, the company expected to purchase women's ready-to-wear from manufacturers selected because of their reputation for economical production and reliability.

Executives of the Millbay Company believed that the number of dresses and coats rejected because they did not meet specifications would range as high as 10% on individual orders, depending on the price of the garments, the season, and many other factors. To minimize rejections and loss of time, it seemed necessary that

the company establish a forwarding depot near the point of production in which dresses and coats would be inspected before shipment to the stores. Dresses at or below $2.98 and coats at $4.98 presumably would not be so inspected. The executives had no basis for estimating the cost of maintaining a forwarding depot, but they did not think the cost would be large.

The store managers, with the assistance of a head of stock and with some supervision by the district superintendents or district managers, would manage the ready-to-wear departments. A buyer for ready-to-wear would be required, and the company considered the establishment of a special ready-to-wear division at the central office responsible directly to the general manager.

For regular merchandise the stores reported sales in dollars daily according to departments. District managers commonly transferred merchandise whenever one store had an excess stock, or particular goods which did not sell readily in a certain locality, to other stores in their districts.

Opposing the addition of ready-to-wear garments, one executive stated that such a step might result in losing the advantages of the fixed price limit of $1. When it was pointed out that the company sold millinery at prices above $1, he replied that the company had entered the millinery field when women had made their own hats. The company then had sold the materials for making a hat at prices below $1. The volume of sales had been such that the company believed its customers expected to purchase millinery from the Millbay Company, and when the demand shifted to ready-made hats the company began to sell hats above $1. Another executive of the company stated that an important reason why the company had not sold merchandise above $1 had been lack of space in the stores.

Should the Millbay Company have added women's and misses' ready-to-wear?

20. FAIRWEATHER COMPANY

DEPARTMENT STORE—LEASED DEPARTMENTS

In 1928 the executives of the Fairweather Company, a department store with annual sales of nearly $20,000,000, were considering leasing the millinery departments of the store. The store was

situated in a city with population of about 1,000,000; it competed with two larger department stores and several smaller ones.

Millinery in the Fairweather Company was sold in three departments: Department 5, millinery $5 and up; Department 8, millinery below $5; and Department 22, basement millinery, priced under $5. It was customary to have one buyer in charge of Departments 5 and 8. The basement millinery department was under a separate buyer. For four years none of these departments had made a showing which was satisfactory to the executives of the company. During that period Departments 5 and 8 had been managed in succession by five different buyers.

The Fairweather Company, because of a shifting shopping district, had traded down somewhat through replacing medium-price merchandise with low-medium- and low-price merchandise. In an attempt to maintain its volume of sales, the company had resorted to a substantial number of store-wide sales featuring specially bought low-price merchandise.

In 1928 there were 76 selling departments in the upstairs store and 23 in the basement. In addition to these, the company leased 13 departments, as follows: barber shop, candy, chiropodist, optical goods, oriental and Chinese rugs, wall paper, engraving and greeting cards, awnings, washing machines, ladies' tailor shop, shoe shining, bakery, and sheet music.

In July, 1928, the treasurer of the Fairweather Company was approached by the representative of a chain of millinery departments operating in 185 department and specialty apparel stores, with central offices in New York and Chicago. This representative proposed an agreement by which his chain would lease the three millinery departments of the Fairweather Company.

In addition to investigating the experience of other stores with the particular chain under consideration, the treasurer and the merchandise manager of the Fairweather Company took this occasion to review the general practice of department leasing.

From statements issued from time to time by the United States Department of Commerce and by the National Retail Dry Goods Association they knew that the practice was increasing. The motive which apparently was uppermost in the majority of instances of department leasing was that of profit; either the store had been operating the particular department at a loss and desired to show a net profit, or else it desired to increase the profit it already was drawing from the department.

The operation of leased departments most commonly was undertaken by chains, or syndicates, but in some instances manufacturers and individuals also had entered the field.

Usually the lessee paid the store a fixed percentage of the sales and itself met the expenses directly incurred by the department, such as department salaries, buying, advertising, insurance, marking and stock room, and communication charges. Rent, maintenance, administration, and office expenses, window display, and charge and installment account expenses ordinarily were paid by the store. Practice differed with regard to payments for packing and delivery and department fixtures.

The lessee was expected to conform to the general policies laid down by the store with respect both to merchandise and to service. Ordinarily neither salespeople nor customers were aware that the department was being operated by an outside organization.

A general survey of department leasing conducted by the Bureau of Research and Information of the National Retail Dry Goods Association in 1928 had showed that millinery was the department most commonly leased. Of 88 stores leasing one or more departments, 57, or 65%, reported that they leased the millinery department.

The particular millinery chain which had approached the executives of the Fairweather Company was favorably recommended by other stores for which it had operated departments.

At the time this proposal was under consideration, the latest buyer had been in full control of the upstairs departments for a period of not quite three months, during which the departments had operated at a loss. Complaints also had been made by customers that the millinery in the basement department was better than that in the upstairs departments.

The treasurer thought that the new buyer had not yet had a fair opportunity to show what he could do, and believed that if given time he could make a success of the departments. The merchandise manager had no such confidence in the buyer. Each of the five buyers whom the store had employed to handle millinery in the previous four years had come to the store with a good reputation; but in each case the experience had been the same, namely, the closing out of the previous buyer's merchandise at a loss, and the purchase of a new lot which in a few months had to be sold out, again at a loss. While he wanted to give the new

buyer a fair trial, the merchandise manager considered that summer was the logical time to make a change if any was to be made; and he believed that the buyer already had given proof of his inability to cope with the situation. The merchandise manager was of the opinion that the store could not sell millinery at a profit, and he therefore favored leasing the department. No study had been made of the effectiveness of the salespeople in the millinery department, nor had the employees been given special training in the sale of millinery.

In 1927 gross margin for the entire store had been 34.6%. Total expense had amounted to approximately 30% of net sales in that year.

The operating results of the millinery departments for the period 1924–1928 had been as shown in Exhibit 1.

The millinery chain offered a three-year contract which could be terminated on three months' notice by either party at any time after the expiration of the initial three-year period. The lessees were to pay the Fairweather Company 17% of net sales of millinery in the store, with a minimum guarantee of $85,000 a year for each of the three years. The store was to furnish selling space, heat, light, elevator service, porter service, sales audit, window display space, and delivery. The chain was to pay all salaries in the millinery departments, as well as advertising, travelling, supplies, signs, telephone, and insurance expense incurred for those departments. The lessees agreed not to establish or operate millinery departments in more than three other stores in the city at any one time. They were willing to take over the existing stocks of the departments at cost, and in the event of termination of the contract to sell the stock then on hand to the Fairweather Company at cost, or remove it entirely without charge to the store. The lessees agreed to conform to the store's policy in advertising, window display, sales events, sales audit, and customer adjustments, and to fit into the store organization as closely as possible. It was stipulated also that the chain company might not advertise the fact that it, rather than the Fairweather Company, was operating the millinery departments.

The existing salesforce was to remain in the departments with the understanding that the store would transfer to other departments, or would discharge, any salespeople who after a reasonable trial seemed incapable of adapting themselves to the selling policies

EXHIBIT 1

FAIRWEATHER COMPANY

Millinery Department—Operating Results, 1924–1928

(Net Sales for Each Period = 100%)

	Department Number	1924	1925	1926	1927	First 6 Months 1928
Net Sales	5 Millinery—$5 up	$107,017.40	$153,369.04	$156,867.66	$133,764.48	$54,333.49
	8 Millinery—below $5	.....	108,151.87	126,889.21	106,087.31	52,066.16
	22 Millinery—Basement	83,945.66	105,545.00	119,298.75	111,505.29	59,166.30
Gross Margin	5 Millinery—$5 up	36.70%	38.23%	36.34%	36.74%	36.45%
	8 Millinery—below $5	.....	40.93	38.74	40.49	31.00
	22 Millinery—Basement	37.19	39.64	38.02	38.44	37.03
Direct Expense†	5 Millinery—$5 up	20.59%	18.13%	19.80%	21.50%	21.65%
	8 Millinery—below $5	.....	19.27	18.49	19.54	19.50
	22 Millinery—Basement	23.02	21.03	19.25	20.65	21.00
Other Expense	5 Millinery—$5 up	17.32%	19.78%	18.35%	19.09%	18.75%
	8 Millinery—below $5	.....	17.63	16.71	17.41	17.67
	22 Millinery—Basement	15.75	15.34	15.15	15.50	15.74
Total Expense	5 Millinery—$5 up	37.81%	37.91%	38.15%	40.59%	40.40%
	8 Millinery—below $5	.....	36.90	35.30	36.95	37.17
	22 Millinery—Basement	38.77	36.37	34.40	36.15	36.74
Net Profit	5 Millinery—$5 up	1.11*%	0.32%	1.81*%	3.85*%	3.95*%
	8 Millinery—below $5	.....	4.03	3.54	3.54	5.27*
	22 Millinery—Basement	1.58*	3.27	3.62	2.29	0.29
Stock-turn (times a year)	5 Millinery—$5 up	7.2	11.9	10.3	8.5	7.7
	8 Millinery—below $5	.....	25.2	27.7	27.6	16.5
	22 Millinery—Basement	9.8	13.0	15.6	16.4	10.2

† Total of advertising, salaries, supplies, signs, telephone, travelling, and insurance chargeable to millinery departments. Had the departments been leased during this period, these expenses would have been borne by the lessee.

* Figures shown in red.

of the department manager placed in charge by the chain company.

One of the desirable features of the lessees' line of millinery was that they held the exclusive control of several well-known makes of hats which were much in demand in the city and could be secured at only those stores in which the chain held the millinery concession.

Should the Fairweather Company have accepted the proposed agreement for leasing its millinery departments?

21. BRASSETT COMPANY

CHAIN OF LEASED DEPARTMENTS—ADDITION OF NEW DEPARTMENTS

In 1929 the president of the Brassett Company, which successfully operated ready-to-wear and millinery departments in department and specialty stores on lease contracts, considered the advisability of adding women's shoe departments to its chain. The company had not had any experience with such departments.

The Brassett Company operated approximately 30 ready-to-wear departments and about 20 millinery departments in 35 different stores in the East and Middle West. All the stores in which the company operated departments sold merchandise at low-medium and low prices. Of the company's total sales of $2,500,000, 75% were ready-to-wear and the remainder millinery. The company specialized in dresses under $25, coats under $50, and millinery under $5, although it sold some merchandise of each type at higher prices. The company commonly selected dresses, coats, and hats of styles that had been accepted generally and were popular at the time of purchase. Dresses sold for more than $25 and coats for more than $50 usually were manufactured according to the company's specifications. Except at the beginning of the two seasons, when coats could not be purchased ready-made, the other dresses and coats were selected from manufacturers' and wholesalers' racks of ready-made garments. The company's buying policy emphasized the reordering of styles that sold well. The Brassett Company secured a stock-turn, based on retail values, higher than 6 times annually in ready-to-wear and higher than 12 times in millinery. The initial mark-ups

in both departments were between 36% and 38% of retail, exclusive of the cash discount of 8%. Mark-downs were between 3% and 5% of net sales.

The terms of lease were almost identical for the ready-to-wear and millinery departments. In return for a payment of 10% of net cash sales, plus 12.5% of net charge sales, the stores under the lease arrangement furnished space, light, and heat, and provided delivery and collection services. The Brassett Company paid the direct expenses of the departments, such as the selling and clerical salaries, receiving and marking expenses, and advertising. The company usually paid rent for the permanent use of windows for display, and bore the cost of alterations in connection with the ready-to-wear departments. The leased departments of the Brassett Company were operated in such a way that customers usually did not know they were leased. Each department was under a department manager responsible directly to the president of the Brassett Company, but subject to the leasing store's general policy regarding such matters as customers' returns, granting of credit, personnel control, and advertising. The Brassett Company always participated in store-wide sales events.

The supervisory and buying organizations of the millinery and ready-to-wear departments in the New York office differed. For the ready-to-wear departments the president acted as merchandise manager, and there were four buyers. There were one buyer and one merchandise executive for millinery. The company maintained records of stocks and sales, in units, both at the central office and in the stores. All merchandise was shipped directly from the manufacturers or wholesalers to the stores.

In the millinery departments, merchandise received by a store was recorded in duplicate on numbered loose-leaf receiving sheets. At the top of each sheet were recorded, for each shipment received, the name and address of the manufacturer, terms, amount of invoice, store name, date, and the number assigned to the manufacturer. There were columns for the following information to be entered: quantity received; manufacturer's style number; description of merchandise; line number, if any; the cost and retail prices for units and for the total; the price if marked down; and a tally mark for each piece of merchandise received. The original receiving sheets were kept by the store, and were filed in reverse numerical sequence in a loose-leaf notebook.

The duplicate sheets were sent to the New York office, where they were checked against the manufacturers' invoices, which had been sent directly to that office.

Two-piece price tickets were used on millinery. These were marked with the selling price, the receiving sheet and line numbers, and the manufacturer's number. A record of each hat sold was secured from half the price ticket detached when a sale was made, and was noted on the receiving sheets by a line drawn through a tally mark. When a sale was entered on a receiving sheet, it also was recorded in duplicate on a daily sales report, showing code number, manufacturer, description, quantity, cost, retail, and total cost and total retail for the day. The original of this form was sent to the New York office, where the merchandise executive entered the sales on the duplicate set of receiving sheets. In doing this, he noted whether or not a style had sold to such an extent that it was necessary to reorder it, and if it had he notified the buyer. Sales also were entered weekly in the departments on recapitulation sheets by classifications or types of merchandise, that is, felt, straw, trimmed, or matrons' hats, and by price lines. Physical inventories were taken weekly. A copy of the recapitulation sheet was sent to the New York office; and on this record and the receiving sheets the merchandise executive and the buyer based their decisions to purchase additional quantities of merchandise and their plans for merchandising the millinery departments. Although the department managers sometimes placed orders for millinery with the buyer, most of the buying was done at the central office. Department managers were permitted to take any mark-downs they thought necessary, but the merchandise executive often advised the department managers when mark-downs should be taken.

In the ready-to-wear departments the system of control records, while differing in some details, was operated in a manner generally similar to the procedure described for the millinery department. The managers of the ready-to-wear departments, however, commonly purchased a larger proportion of their requirements than did the managers of millinery departments. All department managers visited New York periodically to purchase merchandise and to discuss merchandising plans with the company's executives.

In debating the advisability of operating leased women's shoe departments, the president of the Brassett Company took

into consideration the fact that there were women's shoe departments in 20 of the stores in which the company operated millinery or ready-to-wear departments. Although he knew that most of those departments made only small net profits, if any, he did not know whether the stores would be willing to lease them. He believed, however, that several of the stores had contemplated making lease agreements with companies which operated shoe departments. He thought that he might be able to lease between eight and ten shoe departments during the first year and that the sales volume thus secured might amount to approximately $500,000.

The shoe departments of the stores under consideration sold women's and misses' shoes at prices ranging from $3 to $12. Some of the stores limited their lines to shoes selling for less than $5, while others sold shoes only at $5 or more. The latter stores had concentrated on manufacturers' brands, while the former purchased their requirements from various manufacturers or wholesalers. The president believed that the initial mark-ups in the various shoe departments ranged from 35% to 40% of retail, exclusive of discounts, which generally were 4% of billed cost.

If the Brassett Company undertook to lease and operate shoe departments, it would set up an organization similar to that for the millinery division in the New York office. It would use receiving records similar to those for ready-to-wear, which would show sizes and widths; and it would obtain sales information in the same manner as for the millinery and ready-to-wear departments.

Should the Brassett Company have sought to operate leased women's and misses' shoe departments?

22. WOOSTER COMPANY

DEPARTMENT STORE—OPERATION OF MAIL-ORDER DEPARTMENT

Desiring to increase the volume of mail orders that were coming in without direct solicitation, the Wooster Company decided in 1917 to issue a monthly catalogue and send it to a selected mailing list. Prior to that time the mail-order department had been

operated as a service for customers who for various reasons found it inconvenient to go to the store.[1]

When it decided to issue catalogues in 1917, the Wooster Company did not anticipate the increased difficulty which would be encountered in keeping merchandise on hand to fill mail orders. It was usual in many departments, especially those carrying garments, to sell out popular styles quickly and to reorder somewhat different styles; a rapid rate of stock-turn was necessary to prevent losses from style depreciation. Mail-order customers who ordered merchandise several weeks after a catalogue had appeared often were disappointed; many orders could not be filled because of depleted stocks or changed styles. The same situation had existed before the catalogues were issued, but not to the same extent and not with the same degree of obligation for filling orders that was implied by the use of catalogues. After six months, therefore, the company decided to establish separate stocks of the merchandise advertised in the catalogues. Responsibility for maintaining regular stocks of merchandise for mail orders was centralized in the mail-order department; the buyers of the regular selling departments, however, continued to purchase goods for the mail-order stocks.

At that time, the establishment of separate stocks seemed desirable because it freed the selling departments from the handling of mail orders. When regular stocks were used to fill mail

[1] "The Kresge Department Store, Newark, N. J., has commenced the sale of dinnerware by house-to-house canvassing, with such good results that the system promises to increase materially the volume of business done in this category by the store, according to G. A. Booth, buyer of merchandise. In the week the canvassing began, a full carload of the dinnerware was sold, and a record mark of $1,800 for two days' sales was made in the same period. What is still more important, every sale means an additional regular customer for the store, because the dinnerware is sold on the budget plan, with regular weekly payments. So a carload of dinnerware, holding 400 sets, means that many active customers added to the roster.

"The dinnerware sold by the canvassers is priced at $39.75 for a 100-piece set. The ware is in a popular type floral pattern, on an ivory base, with antique gold handles. It is a product of the W. S. George Pottery Co., who supervise the selling and guarantee the sale of the sets contracted for.

"Under the terms of this arrangement, the Newark department store purchases the china at $21.50 a set, in carload lots. This permits a markup of $18.25, which, of course, includes the salesman's commission of $5 on each transaction. The supervisor of the sales crew receives a commission of $1 per set. Most of the sales are made on the time payment plan, and in such cases the store levies a service charge of $1.98. The terms are $5, payable within five days, and $5 a week thereafter. The store purchases the dinnerware on a guaranteed basis, which means that the manufacturers undertake to market every set for the department—and the merchandise, the buyer said, is paid for on the basis of sets sold. Breakage also is guaranteed by the pottery."—*Retailing*, December 28, 1929.

orders, the problem of merchandise control was complicated by the high percentage of returned goods; in the garment departments the returns on mail orders were frequently 30% to 40% of the sales. Furthermore, salespeople who formerly had been obliged to fill mail orders requiring no salesmanship were left free for active selling. Likewise there was eliminated the friction resulting from favoritism, real or imagined, in the distribution to salespeople of mail orders, on which commissions were paid.

In spite of the advantages to the store's regular selling departments, however, the use of separate stocks for the mail-order department was distinctly unsatisfactory. Since it was difficult to gauge the demand for items listed in the catalogues, it was necessary to carry large stocks in anticipation of demand which often did not develop. The rate of turnover of the mail-order stocks was less than half that of the regular selling departments. The best selling prices in the mail-order department, furthermore, were lower than the regular price lines of the store. In 1919, moreover, prices of merchandise were advancing so rapidly that to fill orders at catalogue prices often entailed actual losses. The sales of the mail-order department had increased to some extent, but in 1919 they accounted for only about 2% of the company's total sales volume of $23,000,000.

Consequently at the end of 1919 the management of the Wooster Company decided that its mail-order department should be operated simply as a service department for the convenience of regular customers who wished to order by mail. The separate mail-order stocks were discontinued, and no more catalogues were published.[1]

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1 "A general revision of policies in the issuing of mail-order catalogs was the outstanding development revealed by a survey made of mail-order departments in stores and specialty shops in the metropolitan center. The most recent change from the circularization of long period catalogs issued twice a year to the newer plan of sending booklets and flyers to cover merchandise obtainable for a shorter period was recently announced by Franklin Simon & Co.

"Other stores adopting a similar policy earlier in the season were Saks-Fifth Avenue and B. Altman & Co. Lord & Taylor have discontinued all circularization of pamphlets, merely sending letters to acquaint their customers with the conveniences of their personal shopping service. This more personalized mail-order service at Lords & Taylor's has shown an increase of 25% in business since it was inaugurated, it was reported."—*Women's Wear Daily*, October 16, 1926.

"Because the trend of the times has made it imperative, the mail order catalog issued five times a year by Gimbels, Philadelphia, will gradually have eliminated therefrom all fast changing style merchandise and other items the demand for which may be expected to change, diminish or stop between publication dates of the catalogs, according to Jacob Rubel, recently put in charge of the direct by mail and catalog advertising of that store. The catalog will be issued just as regularly hereafter but will be designed to include, eventually, only staple lines of merchandise.

"To give sufficient direct by mail advertising to style merchandise and to 'specials' which will not appear in the catalogs, Gimbels plan to send out flyers to their huge catalog mailing list as frequently as necessary."—*Women's Wear Daily*, July 28, 1928.

23. SEARS, ROEBUCK & COMPANY (A)

MAIL-ORDER COMPANY—OPERATION OF RETAIL STORES

January, 1930, marked the completion of the first five years of Sears, Roebuck & Company's policy of operating department stores. In February, 1925, the company had opened, in Chicago, its first retail store; and subsequently its expansion in the retail field had been rapid.

Sears, Roebuck & Company, founded in 1895, was the largest mail-order firm in the United States. Its sales and net income from 1920 to 1929 were as shown in Exhibit 1.

EXHIBIT 1

SEARS, ROEBUCK & COMPANY
Sales and Net Income, 1920 to 1929§

Year	Gross Sales	Net Sales†	Net Income‡
1920	$254,595,059	$233,856,872	$11,746,671
1921	178,014,981	159,034,518	16,435,468*
1922	182,165,824	160,648,152	5,435,168
1923	215,540,604	191,324,146	11,512,617
1924	222,174,743	199,545,862	14,354,397
1925	258,342,236	234,421,930	20,975,303
1926	272,699,314	248,550,341	21,908,121
1927	292,927,257	268,731,794	25,022,553
1928	346,973,915	319,773,787	26,907,902
1929	443,452,640	403,472,008	30,057,652

§ Sources: Moody's Analysis of Investments, Industrial Securities, 1925; Moody's Manual of Investments, Industrial Securities, 1928; and The Boston Herald.
† Gross sales less returns and discounts.
‡ Net profit less reserves.
* Figures shown in red.

The company had entered the field of over-the-counter selling partly to keep from losing its sales volume when its customers had begun to use their automobiles more frequently to go to trade in nearby cities, and partly to expand its market by making sales in cities in which it had been able to secure few mail orders. As a

mail-order house, the company had had approximately 9,000,000 customers.

Sears, Roebuck & Company sold practically every kind of merchandise, although in the summer of 1929 it discontinued the sale of groceries. The company had depended on mail-order catalogues to secure sales, although it had also used newspaper and magazine advertising, chiefly to announce the publication of new catalogues. It published large catalogues containing from 900 to 1,000 pages and listing approximately 40,000 items about February 1 and September 1 each year. The pages were 8 by 11 inches in size, and colors and illustrations were used profusely. Furthermore, semiannual sale flyers, containing about 125 pages 6½ by 9¼ inches, were distributed after Christmas and during July and August. Both types of catalogue were mailed out to regular customers and to any persons requesting them. The company followed the policy of filling orders from its main catalogues, in so far as possible, even several years after they were published. The company also issued special catalogues and circulars which it sent to persons requesting them. In the regular catalogue of September, 1929, were listed 45 special circulars, including the following:

Barns, Hog Houses, Poultry Houses
Church Furniture
Clothing Made to Order for Men and Young Men
Cream Separators
Engines—Gasoline, Kerosene, and Thermoil
Modern Homes, Already Cut
Plumbing Supplies—Pumps and Water Supply Systems
Roofing Samples
Rugs
Wall Paper Samples—Moldings

In 1929 the company was operating ten mail-order branches. To the three in operation prior to 1925 in Seattle, Dallas, and Philadelphia, it added in 1925 one in Kansas City, in 1926 one in Atlanta, in 1927 one in Los Angeles, one in Minneapolis, and one in Memphis, and in 1928 one in Boston and one in Greensboro. The company's retail stores were divided among three classifications: Class A, department stores which carried 50% or more of the merchandise listed in the company's catalogues and were located in cities with a population of 150,000 or over; Class B, stores which carried a much more limited line of merchandise and

usually did not sell ready-to-wear clothing, except work clothes and similar merchandise, and were located in cities with a population of from 50,000 to 150,000; and Class C, stores which had been started as automobile tire and accessory stores and later had added automobiles, radio supplies, and a few other items that were most important in the immediate districts. For instance, washing machines were carried by Class C stores in suburban districts, while cream separators were carried by Class C stores near farming districts. Early in 1929 the company announced its decision to discontinue the Class C stores either by giving them up completely or by changing them into Class B stores. Later in 1929, however, the executives changed this policy; and in the fall of 1929 opened five automobile tire and accessory stores in the Boston metropolitan area alone.

A list of typical departments for Class A and Class B stores is shown in Exhibit 2.

EXHIBIT 2

SEARS, ROEBUCK & COMPANY

1928

Departments Operated in a Typical Class A Store

Furniture	Infants' Wear
Stationery	Paint
Jewelry and Silverware	Men's Furnishings
Sporting Goods	Lighting Fixtures
Drugs	Crockery
Hardware and Household Supplies	Cotton Piece Goods and Domestics
Musical Instruments	Floor Covering
Luggage	Lingerie
Silks and Woolens	Boys' Clothing
Shoes	Plumbing and Heating
Hosiery	Men's Clothing
Ladies' Ready-to-Wear	Pianos and Phonographs
Corsets	Toys
Linens and Towels	Wall Paper
Stoves	Radios
Blankets and Draperies	Millinery
Notions	Candy and Tobacco
Washing Machines	Tires
	Auto Accessories

Departments Operated in a Typical Class B Store

Sporting Goods	Work Clothing
Hardware and Household Supplies	Plumbing and Heating
Stoves	Toys
Blankets	Wall Paper
Washing Machines	Radios
Auto Accessories	Tires
	Paint

A list of the cities in which the company operated Class A department stores, as of January 9, 1930, together with the years in which the stores were opened, is shown in Exhibit 3.

EXHIBIT 3

SEARS, ROEBUCK & COMPANY

Location of Class A Stores in Operation January 9, 1930, and Year Opened

Location	Year	Location	Year
Atlanta, Ga.*	1926	Los Angeles, Calif. (South)	1927
Augusta, Ga.	1928	Louisville, Ky.	1929
Boston, Mass.*	1928	Memphis, Tenn.*	1927
Buffalo, N. Y.	1929	Miami, Fla.	1929
Cambridge, Mass.	1928	Milwaukee, Wis. (North)	1927
Camden, N. J.	1927	Milwaukee, Wis. (South)	1928
Charlotte, N. C.	1929	Minneapolis, Minn.*	1928
Chicago, Ill. (North)	1925	Nashville, Tenn.	1927
Chicago, Ill. (South)	1925	Newark, N. J.	1929
Chicago, Ill. (So. West)	1927	Oklahoma City, Okla	1929
Chicago, Ill. (West)*	1925	Omaha, Nebr.	1928
Cincinnati, Ohio	1929	Philadelphia, Pa. (North)*	1925
Cleveland, Ohio (East)	1928	Philadelphia, Pa. (West)	1927
Cleveland, Ohio (West)	1928	Pittsburgh, Pa.	1929
Dallas, Texas*	1925	Pontiac, Mich.	1929
Davenport, Iowa	1928	Portland, Ore.	1929
Denver, Colo.	1927	Richmond, Va.	1928
Des Moines, Iowa	1928	Rochester, N. Y.	1929
Detroit, Mich. (East)	1925	St. Joseph, Mo.	1928
Detroit, Mich. (West)	1925	St. Louis, Mo. (North)	1928
Duluth, Minn.	1929	St. Louis, Mo. (South)	1928
Evansville, Ind.	1925	Salt Lake City, Utah	1928
Flint, Mich.	1929	San Antonio, Texas	1929
Fort Wayne, Ind.	1928	San Diego, Calif.	1928
Gary, Ind.	1929	San Francisco, Calif.	1929
Grand Rapids, Mich.	1929	Scranton, Pa.	1928
Hollywood, Calif.	1928	Seattle, Wash.*	1925
Houston, Texas	1929	South Bend, Ind.	1929
Indianapolis, Ind.	1929	Syracuse, N. Y.	1929
Jacksonville, Fla.	1929	Tacoma, Wash.	1927
Kansas City, Mo.*	1925	Toledo, Ohio	1929
Lansing, Mich.	1928	Topeka, Kan.	1929
Lincoln, Nebr.	1928	Washington, D. C.	1929
Long Beach, Calif.	1928	Wichita, Kan.	1928
Los Angeles, Calif.	1927	Wilkes-Barre, Pa.	1928
Los Angeles, Calif. (West)*	1927		

* Operated in conjunction with mail-order branch houses.

At the end of December, 1928, Sears, Roebuck & Company was operating 37 Class A stores and 150 Class B stores. By the end of 1929 it was operating 70 Class A stores and 225 Class B and Class C stores in 40 states.[1]

[1] The location of its Boston stores is described in Sears, Roebuck & Company (B), page 103.

The organization operating these stores was built around the company's mail-order organization as a nucleus. All buying for both retail stores and mail-order houses was done by the mail-order buyers, with the exception of a few lines for which it had proved necessary to develop a separate buying organization for the retail stores.[1] The company used extensive newspaper advertising for its retail stores.

[1] A description of the organization is given in Sears, Roebuck & Company (C), page 274.

SECTION III
STORE LOCATION

SUGGESTED READING

HAHN & WHITE, *The Merchants' Manual*, Chaps. II–III.

HAYWARD & WHITE, *Chain Stores* (3d Ed.), Chap. V.

JENKS, *The Science of Business* (Alexander Hamilton Institute, Modern Merchandising Texts, Vol. I), Chap. XV.

KNAPP, *Store Management and Business Organization* (Alexander Hamilton Institute, Modern Merchandising Texts, Vol. II), Chap. III.

NYSTROM, *Economics of Retailing* (3d Ed.), Vol. II, Chaps. V–VI.

PYLE, "The Determination of Location Standards for Retail Concerns" (*Harvard Business Review*, April, 1926).

United States Department of Commerce, "Retail Store Location" (*Retail Store Problems*, pp. 13–23).

———"Vehicular Traffic Congestion and Retail Business" (*Retail Store Problems*, pp. 93–140).

University of Texas Bureau of Business Research, *Methods for the Study of Retail Relationships*.

1. SEARS, ROEBUCK & COMPANY (B)

MAIL-ORDER COMPANY—LOCATION OF DEPARTMENT STORES

In 1928, in the course of its expansion by the opening of retail outlets, Sears, Roebuck & Company opened two department stores in the Boston metropolitan area. One of these stores was placed on the corner of Brookline Avenue and Audubon Road, not far from Commonwealth Avenue in the southwestern section of Boston, and the second was located on Massachusetts Avenue near Porter Square in Cambridge. The Brookline Avenue store was the larger of the two and included a mail-order warehouse and district office. Neither of these stores was located in what might be termed a shopping area, and no similar stores were near either, the Brookline Avenue store being on the edge of the wholesale automotive parts district, but near many large apartment houses, and the Cambridge store being about a block from the Porter Square community center.

Sears, Roebuck & Company was founded in 1895 to sell merchandise by mail. It soon became the largest firm in the country selling only by mail order. Prior to 1925 the company had opened three branch mail-order houses, in Seattle, Dallas, and Philadelphia. The company opened its first retail store in Chicago in February, 1925. By the end of 1928 it was operating 37 Class A stores, about 150 Class B stores, and a number of Class C stores. In 1927 the company's net sales amounted to $269,000,000, and in 1928 to $320,000,000. Sears, Roebuck & Company had entered the retail business in order to offset any possible future loss of mail-order sales caused by a growing tendency for customers to motor to nearby cities to do their shopping. The company believed, moreover, that by operating retail stores it could secure a larger proportion of its customers' purchases than it could by selling only on mail order.

Class A stores, which usually were located in cities with populations of 150,000 or more, were complete department stores and stocked about half the 40,000 items listed in the company's general catalogue.[1] The Boston and Cambridge stores were both

[1] See case of Sears, Roebuck & Company (A), page 95.

Class A. Mail-order warehouses with retail Class A stores in connection were operated in Chicago, Los Angeles, Philadelphia, Kansas City, Dallas, Memphis, Atlanta, Minneapolis, Seattle, and Boston. In a Class A store of this type it was possible for a customer to have a requisition made for any article listed in the mail-order catalogue of the company but not carried by the store itself, and to receive the merchandise within half an hour. Class B department stores were located in towns with populations between 50,000 and 150,000.

Class C stores were restricted to the sale of automobile supplies, radios, washing machines, and other bulky merchandise likely to sell well in the district around the store. No Class B stores were operated nearer to the Boston Metropolitan area than Lowell and Fall River, but five Class C stores were opened, near the end of 1929, in Dorchester, Malden, Mattapan, Quincy, and Waltham.

In 1928 the retail shopping district of Boston, shown in Exhibit 1, was centered at the corner of Washington and Summer Streets. At this corner were located William Filene's Sons Company and the Jordan Marsh Company, the largest specialty store and the largest department store, respectively, in the city, and also the Gilchrist Company. The department store of the C. F. Hovey Company was located within a block of this corner. In addition, R. H. White Company's department store was two blocks south, and several specialty stores and variety chain units were located in this vicinity. The city's rapid transit system also centered at this corner, which was the junction of the Cambridge-Dorchester Tunnel and the Everett-Forest Hills Subway and elevated line. These two rapid transit lines connected with street cars and bus lines operated to all parts of the city and its suburbs. Most of the specialty shops were two or more blocks west, on Tremont Street, or on Boylston Street.

Traffic congestion in Boston was serious because of the narrow winding streets and the limited parking facilities. In 1925 the Jordan Marsh Company had purchased the Shoppers' Garage, with a capacity of 600 cars, located about five blocks from its store, and had offered to keep its patrons' cars there during shopping hours, free of charge, and to furnish its customers with bus transportation from the garage to the store. The E. T. Slattery Company, a high-grade specialty store, in 1926 had opened a branch store at Coolidge Corner, Brookline, the center of a fashionable suburban district easily reached by automobile.

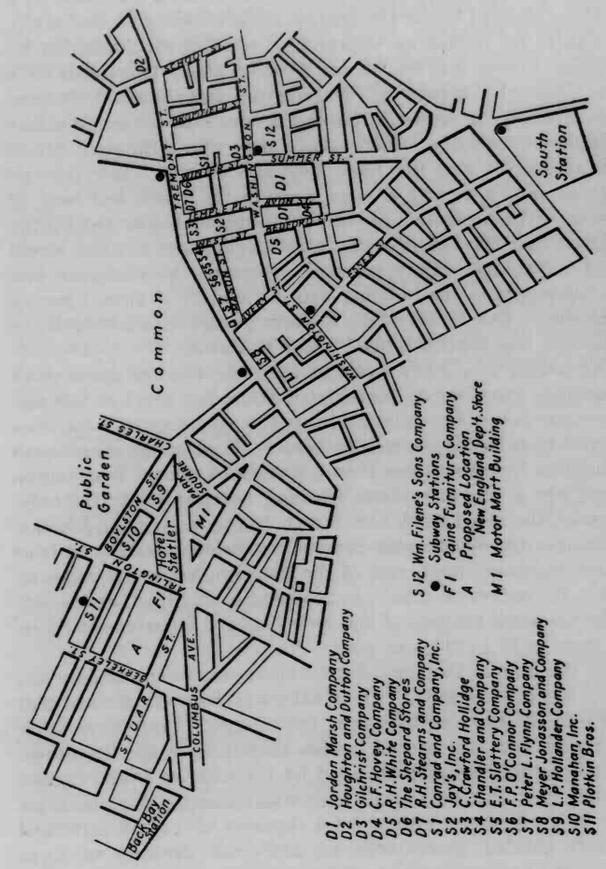


EXHIBIT 1.—Sears, Roebuck & Company. Map of Boston retail shopping district.

In 1928 plans were announced for the New England Department Store, to occupy the first five floors and a basement of a building planned to be the largest office building in the world. It was to be erected on vacant land fronting on Stuart Street, Berkeley Street, and St. James Avenue, about two-thirds of a mile from the corner of Washington and Summer Streets. This location, as shown in Exhibit 1, was near several women's high-grade specialty stores and also the Arlington Street subway station and the Back Bay and Trinity Place railroad stations, which served a large area to the south and west of Boston. The promoters of the New England Department Store believed that the lighter traffic near its proposed location would be of advantage. They planned, moreover, to construct two sub-basements to the building with a capacity of from 2,000 to 5,000 cars. The Motor Mart, a public garage with a capacity of 2,000 cars, was located a block and a half away.

According to a study made in 1927, the average speed of an automobile travelling on Washington Street just south of Summer Street was below five miles an hour; the actual speed sometimes dropped to as low as one mile an hour.[1] The average speed north of Summer Street was less than ten miles an hour. Washington Street was a one-way street allowing northbound traffic only. Likewise, the speed on Winter Street, to the west of the junction of Summer and Washington Streets, was below ten miles an hour and on Summer Street, east of the junction, below five miles an hour. In contrast to this, the speed on Stuart Street, at one side of the proposed location of the New England Department Store, was from 10 to 15 miles an hour.

In the central shopping district there was room for only 541 cars to be parked legally. An actual count, however, showed that from 9 in the morning to 4:30 in the afternoon there were never fewer than 800 cars parked in this district.[2] In the downtown Boston district, the area bounded by the Charles River, Boston Harbor, Fort Point Channel, and Massachusetts Avenue, there were public garages with a total capacity of 14,106 cars, and open-air parking spaces with an additional capacity of 3,340 cars. An average of only 6,360 cars daily, however, made use of these facilities.[3] None of these garages or parking areas was

[1] *A Report on the Street Traffic Control Problem of the City of Boston* prepared by the Albert Russel Erskine Bureau, Harvard University, under the direction of Miller McClintock, Boston, 1928, page 101.

[2] Ibid., pages 157 ff.

[3] Ibid., page 190.

closer to the retail shopping district than was the Shoppers' Garage.

A survey of the means of transportation into the city used by the shoppers in several leading stores, compared with similar surveys in Chicago and Los Angeles, gave the following results:[1]

	Public Carriers	Walking*	Automobiles	
			Parked in Garages	Parked at Curb
Chicago	72.5%	19.5%	6.4%	1.6%
San Francisco	60.2	21.8	6.9	11.6
Boston	62.0	23.7	6.6	7.7

* Includes those walking from suburban trains.

The number of vehicles passing the intersection of Summer and Washington Streets and Stuart and Berkeley Streets between 8 A.M. and 6 P.M. on a day other than Saturday or Sunday was as follows:[2]

	Total
Summer Street, Northbound	3,998
Washington Street, Northwestbound	10,167
Total Traffic at Intersection	14,165
Stuart Street*	7,000
Berkeley Street*	4,000
Total Traffic at Intersection	11,000

* Estimated on basis of figures for adjacent intersections.

Pedestrian traffic during a similar period in the central shopping district was as follows:[3]

	Sidewalks	Overflow	Total
Pedestrian Traffic on Winter Street	57,275	1,879	59,154
Pedestrian Traffic on Washington Street in the Block South of Summer-Winter Intersection	137,728	26,630	164,358
Pedestrian Traffic on Washington Street in the Block North of Summer-Winter Intersection	86,042	4,500	90,542

Metropolitan Boston had been growing at a rate estimated at approximately 25,000 persons a year. The Federal Reserve Bank

[1] Ibid., page 189.

[2] Ibid., page 347.

[3] Ibid., pages 413 f.

of Boston published the following index of sales growth in Boston and in New England:[1]

	1924	1925	1926	1927	1928
Boston Department Stores	95	96	100	100	98
Boston Women's Apparel Shops	79	89	92	100	99
New England Department Stores	94	96	99	100	98

The prospectus for the New England Department Store stated that the store was justified economically for the following reasons:

1. There had been no new major department store in Boston in 15 years to take care of New England's rapidly increasing purchasing power.
2. Boston had one department store for every 102,000 people in its retail shopping area, while the other nine largest cities averaged one to every 43,000 people, or more than twice the number that served the Boston retail area.[2]
3. In recent years, Boston department stores in general had had a great increase in sales and tremendous gains in surplus and profits.
4. Pressure of population and traffic limited Boston's downtown shopping retail district expansion, thereby necessitating a migration of business from the congested area into new districts where streets were wider, parking space ample, and the vehicular movement of traffic more expeditious.

An independent organization had been engaged by the promoters of the New England Department Store to interview nearly 2,000 representative women in widely scattered residential districts in an effort to obtain unbiased opinions regarding department stores in Boston. The results of this survey were as follows:

1. Sixty-seven of every 100 named the Park Square district as the most convenient location for the proposed department store.
2. Seventy-five of every 100 said that they would eagerly welcome and patronize such a store.
3. Seventy-five of every 100 said that they believed such a modernized department store would immediately enjoy a profitable volume of sales.

Despite the favorable indications shown by this survey, the project for the establishment of the New England Department Store had not been carried into execution.[3]

[1] Federal Reserve Bank of Boston, *Monthly Review*, February, 1929.
[2] J. Walter Thompson Company, *Retail Shopping Areas*, 1927.
[3] In an eastern city a men's clothing store with an established reputation for handling high-grade merchandise occupied a site for many years near the center of the retail trading district, in close proximity to several other clothing stores for men and also to several department stores. In 1922, because of the expiration of a lease, it became necessary for this store to move. The firm obtained a store building, in many respects superior to the one originally occupied, in a location on a street less than three blocks away. This site compared favorably with the original site in respect of accessibility from stations of the rapid transit system, volume of foot traffic, volume of automobile traffic, width and condition of sidewalks, width of street, and other criteria. There were, however, no other important stores of the same type in the immediate vicinity. Following its change of location this firm was reported to be showing unsatisfactory results, and at the end of its third year in the new location the business was sold to a firm which operated several men's clothing and furnishings stores in another city.

The failure in 1913 of another institution, the Henry Siegel Company of Boston, was attributed partly to its location outside the established shopping district. The store was on the corner of Washington and Essex Streets, several blocks from the other large department stores.

Regarding the desirability of concentration of department store locations, it has been said that:

"John Wanamaker's in New York has been cited as an example which disproves the principle of concentration of department stores. This store, which appears to have been unusually successful, is located on Broadway and Tenth Street, a considerable distance from any of the concentrated shopping districts. There has been a marked tendency for the retail department store trade of New York to move uptown. Many years ago Prince Street was the chief retail trade center of New York. From there the center shifted to Broadway and Fourteenth Street, but in 1922 only one of the old established firms [James A. Hearn & Son] remained at that point. The next center of prominence was Twenty-third Street, but this district in turn was deserted by the shopping trade. The next point of concentration was at Broadway and Thirty-fourth Street, which is now an especially active retail business district. The growth of retail stores on Fifth Avenue indicates that the northward trend continues."—Copeland, M. T., *Problems in Marketing* (Third Revised Edition), page 18.

In 1920, Saks & Company secured a lease on the property at Fifth Avenue and Forty-ninth Street and, in 1925, opened a women's high-grade specialty store there, though the company continued to operate its store at Thirty-third Street and Broadway. In 1929, Stewart and Company opened a high-grade specialty store at Fifth Avenue and Fifty-sixth Street. Bloomingdale's had operated a lower grade department store at Fifty-ninth Street and Lexington Avenue since 1886.

The locations of the two Sears, Roebuck & Company Class A stores, the central shopping district, and the outlying suburban districts were as shown in Exhibit 2.

By actual count, Massachusetts Avenue, on which the Cambridge store was located, was one of the most densely used thoroughfares leading into Boston. This count, made from 8 in the morning until 6 in the evening on a day other than Saturday or Sunday, in the summer of 1927, on Massachusetts Avenue just south of Porter Square and in front of the proposed location for the Sears, Roebuck & Company store, showed 12,819 automobiles passing that point, while a count just north of Harvard Square showed 18,037 automobiles passing that point.[1] In addition, a count on Somerville Avenue, which entered Porter Square from the east, showed 3,214 automobiles passing there.

[1] This count was made by the Metropolitan Planning Division of the Commonwealth of Massachusetts.

Of the 12,819 automobiles passing in front of the proposed store location, 2,842 were stopped by the persons making the count and asked their origination and destination. Fifty-seven of the replies were obviously incorrect but the remaining 2,785 were as

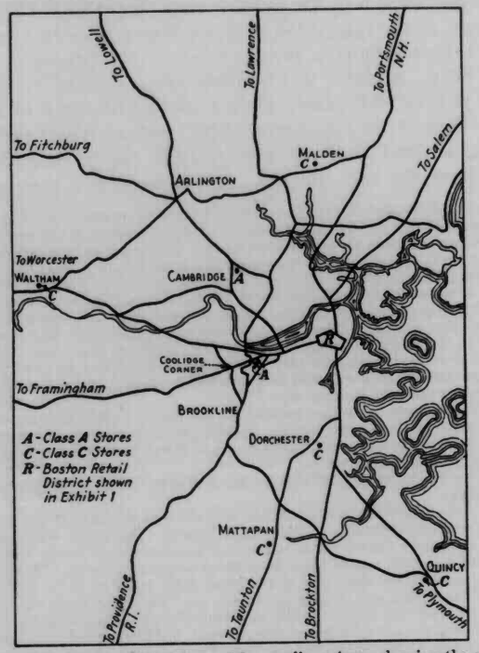


EXHIBIT 2.—Outline map of the Boston Metropolitan Area, showing the relation of the Sears, Roebuck & Company stores to the retail district.

listed in Exhibit 3. The origination and destination were not kept separate; the figures, therefore, are a composite of replies as to both point of origination and point of destination. For instance, of the automobiles passing that point, 1,084 were either coming from or going to Arlington.

EXHIBIT 3

SEARS, ROEBUCK & COMPANY

Origination and Destination, of 2,785 Automobiles Passing the Location for the Sears, Roebuck & Company's Cambridge Store One Normal Business Day in the Summer of 1927

Origination or Destination of Automobiles	Number of Automobiles	Origination or Destination of Automobiles	Number of Automobiles
Central Boston	257	Arlington	1,084
South End and Back Bay	476	Winchester	139
Brighton	144	Billerica and Lowell Road	265
Brookline	107	Other (Divided in Varying Amounts among 54 Points)	1,092
Watertown	106	Total Originations and Destinations	5,570
Cambridge	1,326		
Somerville	395		
Medford	179		

The vehicular traffic at the corner of Audubon Road and Brookline Avenue between 8 A.M. and 6 P.M. on a week day other than Saturday, in the summer of 1927, was as follows:[1]

Audubon Road, Northwest Bound	1,660
Audubon Road, Southeast Bound	2,741
Boylston Street, Southwest Bound	2,585
Brookline Avenue, Northeast Bound	4,589
Brookline Avenue, Southwest Bound	2,868
Total Traffic at Intersection	14,443

Street car transportation to the Cambridge store was offered by the Massachusetts Avenue lines operated to North Cambridge and to Arlington from Harvard Square, the terminus of the Cambridge-Dorchester tunnel. This line had the densest traffic of any surface line operated by the Boston Elevated railway system. An average of 1,028 street cars passed the store every day; this store was about 9 minutes by street car from Harvard Square. A count made by the Boston Elevated Railway system showed that 19,500 people entered the Harvard Square station on Arlington cars in one day, while 18,000 left Harvard Square on these cars. In addition, 14,500 people arrived on North Cambridge cars, and 14,000 left. On Somerville Avenue between Central Square and Porter Square there were about 10,000 passengers daily. It was likely that additional rapid transit lines would be constructed to connect North Cambridge or Arlington with existing

[1] *A Report on the Street Traffic Control Problem of the City of Boston*, prepared by the Albert Russel Erskine Bureau, Harvard University, under the direction of Miller McClintock, Boston, 1928, page 357.

lines. The Cambridge subway might be extended past Harvard Square under Massachusetts Avenue, with a station near the Sears, Roebuck & Company store, but it was more probable that a rapid transit line would be constructed from Lechmere Station in East Cambridge to Arlington; this line would not come within half a mile of the Cambridge store. In either case, much of the street car traffic would be taken off Massachusetts Avenue.

The Brookline Avenue store was serviced only by the Ipswich-Cypress line operating out of the Massachusetts Avenue station, a junction of street car and bus lines with the Boylston Street subway. The store was about seven minutes by trolley from the Massachusetts Avenue station. Only 179 cars daily were operated each way on the Ipswich-Cypress line. A count at Ipswich and Boylston Streets, about three minutes from the store, showed 7,600 passengers starting for the Massachusetts Avenue station and 6,900 outbound daily. The store was distant about a ten-minute walk from the Kenmore Station on the Commonwealth Avenue line, and a five-minute walk from Audubon Circle on the Beacon Street car line.

According to the traffic survey of Boston, the Brookline Avenue store was about 12 minutes by automobile from the center of Boston, while the Cambridge store was about 23 minutes away.

The site for the Boston store was adjacent to a railroad line, and several sidings extended into the property. Sears, Roebuck & Company had purchased the site, which was vacant at the time, and held it in its own name. The assessed valuation of the land was $1.50 a square foot. The tax assessors stated that the company had paid $4 a square foot for the property on the corner of Brookline Avenue and Audubon Road; they did not know the price paid for the remainder. Both store buildings were of poured concrete construction with few partitions. The company had refused to purchase the Boston site until the zoning laws had been changed to allow it to construct on the proposed building a tower similar to those on its other stores.

The area of land and the assessed valuation of the sites and buildings belonging to Sears, Roebuck & Company compared with similar data for the proposed New England Department Store and stores in the central shopping district were as shown in Exhibit 4.

Although a railroad was adjacent to the company's Cambridge property, it was doubtful, because of obstructions and the location

of the site, whether a spur track could be built there. Stocks for the Cambridge store were carried by truck from the Boston store. The Cambridge assessors estimated that the assessed valuation was about the same as the actual cost of this property and that the total cost of the Cambridge store, including land, buildings, and fees, amounted to $341,000. The land, which had been

EXHIBIT 4

Area of Land and Assessed Value of Land and Buildings Occupied by Stores of Sears, Roebuck & Company, the Proposed New England Department Store, and Stores in Retail Shopping District

Company	Area in Square Feet	Assessed Value of Land	Assessed Value of Buildings	Total Assessed Value
Sears, Roebuck & Company Boston Store	277,165	$ 415,700	$ 2,584,300	$ 3,000,000
Sears, Roebuck & Company Cambridge Store	82,390	52,000	275,000	327,000
Total	359,555	$ 467,700	$ 2,859,300	$ 3,327,000
New England Department Store	132,654	$2,270,000	.....	$ 2,270,000
Jordan Marsh Company Main Store and Annex	103,646	1,962,000	$ 9,618,000	11,580,000
C. F. Hovey Company*	36,369	316,000	2,619,000	2,935,000
Gilchrist Company*	18,037	457,000	2,757,000	3,215,000
William Filene's Sons Company	63,288	2,568,500	7,681,500	10,250,000
R. H. White Company*	51,293	402,000	3,818,000	4,220,000
Total for Stores in Shopping District	272,633	$5,705,500	$26,493,500	$32,200,000

* Figures do not include space occupied in adjacent buildings.

occupied by an old house and barn, had been on the market for several years.

Sears, Roebuck & Company owned enough land to provide parking space for about 100 cars around the Cambridge store and about 220 around the Boston store. This space was laid out with wooden markers, showing how the cars were to be parked. In addition there was room for 25 cars along the curb around the Boston store. The statement was made in each newspaper advertisement of the company that free parking facilities were provided at each store. After the company bought the Cambridge property it offered to purchase several adjacent lots to use for parking space, but the owners increased their prices three times or more and the company refused to purchase their land.

Did Sears, Roebuck & Company follow a sound policy in choosing the locations for its Boston and Cambridge stores?

2. GABLER & COMPANY

DEPARTMENTIZED SPECIALTY STORE—ESTABLISHMENT OF A SUBURBAN BRANCH STORE

Gabler & Company operated a departmentized specialty store, well located in the retail shopping area of a city of over 1,000,000. The sales volume, which was growing steadily, was about $3,000,000 in 1925. The store appealed to well-to-do customers; it carried medium- and high-grade merchandise. In the fall of 1925 the officers of the company decided to establish a branch store about three miles from the main store. This venture could be financed easily out of the funds of the company.

The plan of having a branch store within the city arose out of the belief of the president of the company that the increasing traffic congestion soon would create a need for departmentized specialty stores in the less congested areas. Since comparatively few automobiles were driven by chauffeurs and since many were driven by women, the president considered that many women would welcome a departmentized specialty store where traffic was light and where cars could be parked near the store.

The president was of the opinion, furthermore, that, if retail firms already established did not soon start branch stores in suburban trading centers, new companies would be organized to secure this business. As a result, in a few years a company with a store only in the central retail district might lose the patronage of many people living in the outlying districts of the city. The president, therefore, wanted Gabler & Company to be among the first to establish a branch store, in order that it might gain a strong competitive position with respect to the trade of that considerable number of women who, he anticipated, would change their buying habits.

Wharton Center, the location chosen for the branch, was selected primarily because it was already a well developed convenience goods trading center and because several highways leading from the better residential sections converged at this point. Although Gabler & Company had no complete record of customers

by places of residence, the management knew that a substantial part of its clientele lived in sections near Wharton Center or drove their automobiles through Wharton Center from outlying communities. The traffic and parking problem in Wharton Center was not serious in comparison with downtown areas. In fact, since the City Council had provided special parking facilities at Wharton Center, many people already had begun the practice of parking their cars there and then riding by elevated train to the main shopping district, which could be reached thus in about 12 minutes. At that time there were no important apparel stores at Wharton Center. There were drug, grocery, and furnishings stores; one shoe store; a florist; restaurants; and several doctors' and dentists' offices.

The treasurer of Gabler & Company opposed the establishment of the branch store. He thought that his company could not expect a profitable sales volume at Wharton Center. Although he recognized the fact that there were a number of women who, if they had confidence in a store, would come to it in preference to shopping, he believed that such women were in a negligible minority. Furthermore, he did not believe that traffic and parking difficulties would increase to such an extent that women would abandon metropolitan shopping in large enough numbers to justify the establishment of department or specialty stores in districts outside the main retail shopping center.

The president thought that the company could establish a branch which, in a few years, would have a sales volume of about $250,000 a year, and which could be operated at a profit. Upon investigation, it was found that a store could be leased for 10 years for an average rent of $7,500 a year. This store was one of several on the ground floor of a new fireproof, 10-story building to be used for offices and apartments. The building was well located and pleasing in appearance.

Because the rental charge was much lower than he had anticipated, the treasurer finally became more favorably impressed with the possibility of profitable operation of the branch store. He also realized that if one or two other department or specialty stores established branches at Wharton Center, these branches would help the business of the Gabler & Company branch store. This belief was strengthened by the experience of Gabler & Company with a branch store which had been operated successfully since its opening in 1923 in Hollins, a suburb 13 miles from the

center of the city, where there were two colleges for women, the college students forming a majority of the customers. The volume of sales at the Hollins store had increased definitely when a second departmentized specialty store had opened a branch in Hollins about a year and a half after the establishment of the Gabler & Company branch.

The departments in the main store of Gabler & Company were as follows:

Women's Suits
Women's Coats
Women's Dresses
Fur Coats
Fur Scarfs
Sweaters, Waists, Skirts
Millinery
Neckwear
Moderate-Price Dresses
Silk Underwear
Alterations
Misses' Coats
Misses' Dresses
Misses' Suits
Hosiery
Men's Ties
Fur Storage
Gloves
Hand Bags
Jewelry and Novelties
Handkerchiefs
Negligees
Brassieres
Cotton Underwear
Slips
Glove Silk Underwear
Luggage
Infants'
Umbrellas
Fur Remodeling
Toilet Goods
Children's
Juniors'

The departments in the company's branch store at Hollins were the same as in the main store except that the branch did not have the alterations, men's ties, fur storage, and fur remodeling departments; also the gloves, luggage, and umbrella departments were small in the Hollins branch. Departments in the Wharton Center branch were to be the same as in the Hollins branch. The president anticipated substantial sales at the new branch in the following departments: women's coats, women's dresses, silk underwear, hosiery, toilet goods, children's, and juniors'.

The company's experience with the Hollins store furnished no reliable basis for estimating the profitability of the proposed branch at Wharton Center, because of the difference in the class of customers and in the distance from the shopping center. The experience at Hollins was of value, however, in respect to the problems of management and control. It was planned to operate the Wharton Center store in substantially the same

way as the Hollins branch, although the store at Wharton Center would be twice as large.

At Hollins there were three sales girls and a manager; the new branch probably would require five sales girls. The Hollins manager had complete charge of most functions affecting her store. She selected all merchandise, choosing it from the departments in the main store, which were her only sources. When merchandise was taken from a department it was credited to that department both at cost and at retail. The record of sales at the branch was kept in separate ledgers. The branch manager set stock quotas and undertook to keep adequate assortments of merchandise on hand, although practically no reserve stock was maintained at the branch. The branch stock records were kept entirely separate from those of the main store. Credit was granted through the main office, but the branch manager could use her judgment in allowing small charge sales; the bills were sent out from the central office. Delivery service at the branch was separate from that of the main store, but was only a small item of expense, since customers generally carried their purchases with them.

Special sales events seldom were held at the branch; when stock moved slowly, it either was returned to the main store or sold by means of "promotions," a term used to designate slight price reductions without great advertising emphasis on the mark-downs. The manager believed that she could not afford to stress mark-downs or price advantages, because such sales promotion methods would cause customers to think of comparing prices with those in other stores and consequently would send them to the main shopping center. The stock was selected carefully; the manager estimated merchandise returns to the main store to be less than 10% of net sales.

Although the manager of the Hollins store realized the differences between her store and the proposed Wharton Center branch, she believed that the new branch would be a profitable venture. In her opinion, an appreciable number of women bought many articles in one store without shopping if they had confidence in that store.

When the new branch store was ready to be opened, the management planned to advertise it in newspapers and to circularize all residents in the districts about Wharton Center.

3. GRENMORE COMPANY

GROCERY CHAIN—STORE LOCATION

For several years the Grenmore Company had operated one of its stores at the corner of Grand and Adams Streets in a large middle-western city. The vicinity was as depicted in Exhibit 1. The district to the east of this location had been occupied by factories and tenements, but by 1929 many of the tenements had been torn down to make way for factory buildings. With the change in the character of this neighborhood, the sales of the Adams Street store had declined from a profitable weekly sales volume of $500 to an unprofitable volume of $300 weekly.

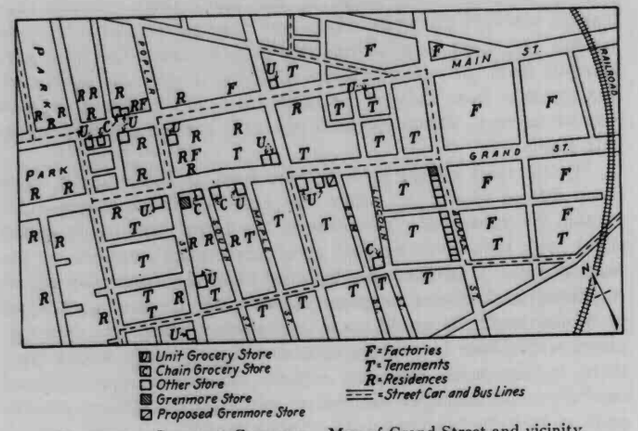


EXHIBIT 1.—Grenmore Company. Map of Grand Street and vicinity.

The Grenmore Company also operated a store one-quarter mile west of the Adams Street store, on Poplar Street, just off Grand Street. This store's weekly sales volume of $300 did not allow a profit. The company therefore considered discontinuing both these stores and establishing a new store at the corner of Grand and Elm Streets, a location approximately halfway between the two established stores. A suitable building at that corner could be leased for $60 a month.

The Grenmore Company operated nearly 550 stores within a radius of 20 miles, and had annual sales of $15,000,000 in staple groceries, milk, bread, vegetables, and fruits. Each store was visited daily by one of the company's 35 superintendents. The superintendents reported to seven supervisors. When its earnings warranted expansion, the company added new stores, gradually extending the scope of its coverage within the limits imposed by warehousing and supervisory requirements. The company also considered it essential that new stores should be established in districts covered by the newspapers in which the company advertised. In a few instances the Grenmore Company established two stores in adjacent blocks or almost opposite each other on the same street. As long as such neighboring stores had large enough sales to give profits, both stores were operated.

Superintendents, subject to the approval of the company's executives, selected the sites for new stores. While transportation facilities, such as street car and bus lines, and the volume of automobile and foot traffic were considered important in the selection of new sites, the company desired primarily locations which were convenient to people residing in the vicinity. There were two larger chain grocery companies, several smaller ones, and many unit grocery stores operating in the territory served by the Grenmore Company. The company, believing that the sales of a new store were secured almost entirely by taking business away from other chain and unit stores, regarded the store manager as the greatest single factor in developing business. After a superintendent had selected a possible location and had made tentative arrangements to obtain a lease, he made a definite recommendation to the company's executives. If the company's financial position enabled it to add another store, the superintendent's recommendation usually was accepted.

The company always leased its stores. The leases ran for varied lengths of time but never for long periods. Since the company continually was seeking better store sites in the neighborhoods in which its stores were located, it wished to be in a position to take over good locations as they became available. The cost of equipping a store was approximately $1,000, and the investment in stock averaged about $2,000.

With a weekly sales volume of only $300, the Adams Street store was not profitable. Sales of at least $350 weekly were needed to cover the $60 monthly rental charge. The merchandise

manager of the Grenmore Company attributed the decline in the store's sales to the change in the character of the neighborhood, but he did not expect any further extension westward of the factory district. The factories in this neighborhood had been attracted by the railroad facilities which the locality offered. Sites for factories west of Adams Street did not offer spur track facilities.

The district superintendent reasoned that the customers of the Adams Street store would continue to buy at a Grenmore Company store if one was conveniently near. If the Adams Street store were discontinued, however, he believed that few customers would walk the additional quarter-mile to the Grenmore Company store on Poplar Street. The superintendent thought that the retail grocery business in the vicinity of the Poplar Street store was divided among the several competing chain and unit stores. He did not consider that the unit stores along Grand Street were offering serious competition. Since the Poplar Street store did not sell so much as it should have sold in such a district, the superintendent was convinced that for some reason, possibly the personality of the store manager, the people in the vicinity preferred to buy groceries in the competing stores. A more suitable store manager in time might build up the sales volume in this store. The people residing in this vicinity were in a higher income class than those living farther east of Poplar Street. The lease of the Poplar Street store could be terminated at any time; and, since an available building on the corner of Grand and Elm Streets had been vacated recently by a unit store, the district superintendent recommended that the company merge the Adams and Poplar Street stores at this location.

Should the Grenmore Company have followed this recommendation?

Should the company have established any different policies with respect to store location?

4. WINCANTON COMPANY

CANDY AND LUNCH CHAIN—STORE LOCATION

The Wincanton Company, manufacturing high-grade candies which it marketed under its own brand name, operated a chain of 60 lunch rooms and candy stores in leading cities throughout the United States. Annual sales amounted to about $10,000,000.

The company's stores had been planned to appeal primarily to office workers; consequently most of them were in office or shopping districts. In the summer of 1929 the company considered opening a lunch room in one of the trading centers of a suburban city. This district was near a large university with an enrollment of over 8,000 students, a majority of whom were men. The trading center was a transfer point for commuters between a nearby city and its outlying suburban areas, and was also a junction point for automobile traffic between the city and surrounding towns. Stores in the district catered to transients and residents as well as to the college students.

At the site suggested a drug store with the customary soda fountain had been operated, but it had been unsuccessful. The store occupied a street floor area about 35 feet by 18 feet in one of the largest office buildings in the district. This area was in a corner facing on two intersecting streets. The remainder of the main floor of the office building was occupied by a broker's office and a men's clothing store. A motion picture theatre was located nearby. There were many drug stores, restaurants, tea rooms, and soda fountains located in the vicinity. A map showing the district immediately surrounding the building and the location of the competing stores is given as Exhibit 1.

The rent for the store and the basement immediately beneath it was $10,000 a year. The executives of the Wincanton Company estimated that it would cost the company about $10,000 to remodel and equip the store for the company's purposes. The equipment would include a 30-foot soda fountain and lunch counter down one side, and a cashier's cage, candy and cigar counters, and telephone booths on the other. Twenty persons could be seated at a time; a customer rarely spent more than ten minutes at the counter, and for some purchases customers took only two or three minutes. Dish washing would be done in the basement, and supplies would be kept there. A dumb-waiter would be installed to move dishes to and from the basement and to bring up supplies.

The Wincanton Company made no count of the number of persons frequenting the general vicinity or of the number passing the location. The company sought primarily to secure regular customers rather than to attract transients. The management usually located stores near office buildings or large stores, the employees in which were depended on to furnish most of the trade.

In such locations, nevertheless, transients were recognized as an important source of sales. Some time previously, in another city, the company had opened a lunch room on a main thoroughfare leading from one of the railroad stations to the central office and shopping districts. Although this store was adjacent to a successful tobacco store, it had been a failure from the beginning.

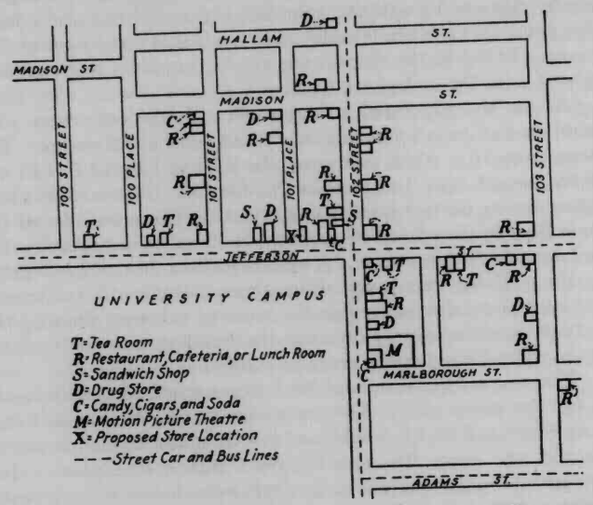


EXHIBIT 1.—Wincanton Company. Map showing district surrounding proposed store location.

One reason suggested was that most persons passing the lunch room were in a hurry either to catch a train or to reach their offices. Since other lunch rooms had been operated successfully near railroad stations, however, the officers believed that the failure of this lunch room was to be attributed mainly to the fact that the residents in the district were of a poorer class and offered little patronage for the store.

In studying the proposed location, the Wincanton Company learned that a great many students passed through the trading center in going between their rooms and the university, and that a large percentage of them were in the habit of eating at some one

of the 30 lunch rooms and restaurants already located in this district. In addition, meals were served in a few dormitories.

To estimate the costs of operating the proposed store, the company used the following percentages of net sales as a gauge for the maximum limits that would permit profitable operation; efficient management could be expected to reduce these percentages.

Rent	15%
Pay Roll	20
Food	50
General Expenses	10
Depreciation	1

The company estimated that the total wages for the store would amount to a little more than $200 a week. The store would be open from 7 o'clock in the morning until midnight. A 30-foot counter would require four waiters during the rush hours of the day, one to spend his time in making sandwiches and preparing hot dishes, and the other three to wait on the customers and make up orders from the soda fountain. During the less busy periods, two persons would be sufficient. Two shifts of regular waiters would have to be employed, and for the rush hours the company could engage waiters working either part-time, or full-time with their working hours split as follows: from 11 o'clock until 2 o'clock, and from 7 o'clock to 12 o'clock in the evening.

The Wincanton Company paid its full-time waiters $27 a week, an amount somewhat above the average paid for that type of labor in the city. The management believed, however, that it was wise to pay higher wages in order to secure courteous and efficient service and in order to retain the employees after they became trained. The manager of the store, who would be paid $35 a week, would be required to do the bookkeeping for the store, to buy food and other supplies, and to help serve customers. In addition, a cashier at $20 a week and a porter at $18 would be required. The cashier would sell candy and tobacco as well as receive payments for the lunch counter checks. The porter would wash the dishes and clean the floors and windows.

Food costs would vary with the volume of business but were expected to average about 50% of sales. General expenses included such items as gas, electricity, china, and silverware, as well as a charge for supervision by the district manager. The actual amounts had not been estimated in detail. The company depreciated its fixtures on a 10-year basis.

In forecasting the sales volume for a store, the executives usually built up the total from estimates of the number of meals which would be served. In office districts, luncheon was the principal meal served, and the stores usually were closed in the evening. Stores in theatre districts, on the other hand, depended chiefly on afternoon and evening patronage; in these districts, where the company operated tea rooms equipped with tables and employing waitresses, the average sales check amounted to about 40 cents. In a lunch room of the type under consideration, however, the company had found that the average sales check amounted to 25 cents.

In the proposed location the company believed that a store could plan to serve three meals a day to students as well as luncheons to the employees in the adjacent stores and offices. In addition there would be a small amount of business at other times. The company did not expect the sales at the candy counter to be large, and ignored them in estimating the possibilities of the location.

Should the Wincanton Company have planned to open a store in the proposed location?

5. COOKHAM COMPANY (A)

VARIETY CHAIN—SELECTION OF CITY FOR NEW STORE

The Cookham Company sold ready-to-wear accessories, yard goods, house furnishings, and similar merchandise at prices under $1. On January 1, 1929, the company operated approximately 100 variety stores in cities with population ranging from 10,000 to 1,000,000, and in secondary shopping districts in several larger cities. During 1928 the Cookham Company had established about 20 new stores, of which approximately 75% were in cities with population less than 50,000. While most of the company's stores were located in cities having diversified industries, the company had stores in several cities in which one type of industry predominated. Sales in individual stores ranged from $100,000 to $1,000,000 annually. By September 1, 1929, there were over 120 stores in operation. Estimated sales for 1929 were $35,000,000.

In September, 1929, the real estate department of the Cookham Company was notified by a real estate broker in Smithville, Pennsylvania, that a building was available in that city which would be suitable for a Cookham Company store. The real estate department undertook to analyze Smithville as a possible location for a new store. In its analysis, the real estate department first made a preliminary investigation of the city and asked the real estate broker to provide a map of the city's retail district, to show the types of stores and their locations, and particularly the locations of the stores of competing chain companies. Two of the four principal competing chain systems sold merchandise at price ranges approximately the same as those of the Cookham Company. The other two chains had lower and narrower price limits. Although the Cookham Company believed that it possessed a competitive advantage over the other chain companies selling merchandise at comparable price ranges, one of the variety chains which specialized in merchandise at lower price limits than the Cookham Company clearly enjoyed a competitive advantage because of its specialization. A substantial proportion of the merchandise sold by the Cookham Company, however, was offered at retail prices higher than this particular competitor's price limit.

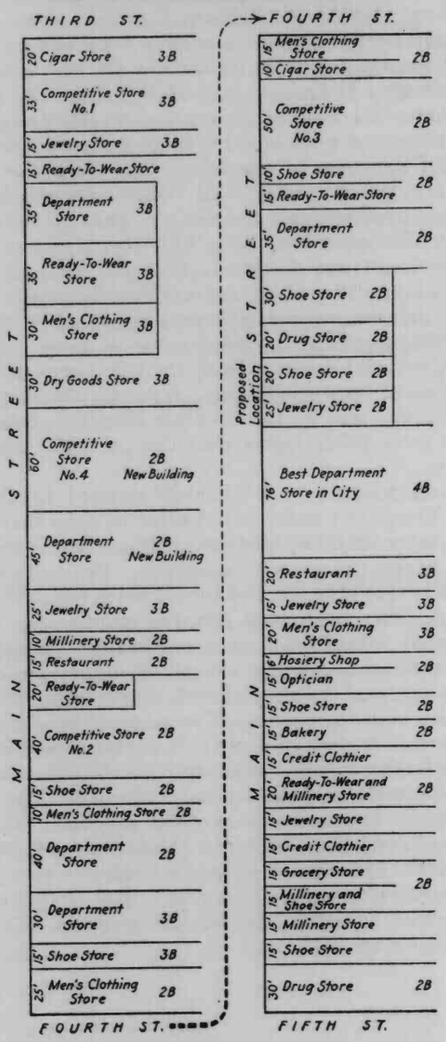
The preliminary survey of Smithville revealed that the nearest Cookham Company's stores were located in cities that were 32, 54, and 75 miles distant by railroad. These cities had populations of 70,000, 20,000, and 700,000 respectively. Smithville had had a population in 1920 of 65,000, and the estimated population in 1929 was 85,000. The city's total effective trading area, however, comprehended a population of approximately 260,000. From various government reports, it was calculated that the population in the trading area consisted of 83% native born whites, 15% foreign born, and 2% negroes. The company believed that the buying power of negroes was only 25% of that of whites, and the figure of 2% represented an adjustment for this difference.

The chief products of the city and of the surrounding districts were fabricated iron and steel products and coal. There were over 100 industrial establishments, chiefly iron and steel mills, in Smithville. The number of people employed was 22,000, of whom 3,500 were women. The women were distributed fairly evenly between industrial and clerical positions. There were 10,000 home owners in the city.

EXHIBIT 1

COOKHAM COMPANY

Retail District of Smithville, Pennsylvania



The map of the city's retail district submitted by the real estate broker was as shown in Exhibit 1. Practically all the stores were located on the north side of Main Street, which was the principal shopping street. For each store location, the map indicated the type of store, the frontage in feet, and the number of floors and basement. The building proposed for the Cookham Company's store was 45 feet by 80 feet and was located on a lot 45 feet by 150 feet. If the Cookham Company took the proposed location it presumably would extend the building back to a depth of 150 feet. Such a building would provide approximately 8,000 square feet of selling space and 1,000 feet of counter space.

After examining the map, the Cookham Company sent one of its real estate scouts to Smithville to make a personal investigation both of the city itself and of the location proposed for the new store. This representative took clerk and customer counts of the four competing stores, the results of which were as shown in Exhibit 2. He also took pedestrian counts of the number of persons passing certain points during intervals of 15 minutes. These results were as shown in Exhibit 3. Women represented 70% of the pedestrian count.

EXHIBIT 2

COOKHAM COMPANY

Customer and Clerk Counts in Four Competing Stores in Smithville, Pennsylvania

Date: Oct. 2, 1929 Time: 2 P. M.				Date: Oct. 2, 1929 Time: 4 P. M.			
Clear and Cool							
Name of Store	**Size of Store**	**No. of Clerks**	**No. of Customers**	**Name of Store**	**Size of Store**	**No. of Clerks**	**No. of Customers**
Store #1...	33 × 225	30	43	Store #1	33 × 225	32	122
Store #2...	40 × 272	21	59	Store #2	40 × 272	35	106
Store #3...	50 × 272	27	53	Store #3	50 × 272	36	126
Store #4...	60 × 272	62	149	Store #4	60 × 272	82	288
Influence of these stores on traffic: Heaviest traffic between store #1 and large department store in next block							

From various sources, such as the local Chamber of Commerce and banks, the scout learned that 90% of the city's inhabitants did practically all their buying in the central retail district and

EXHIBIT 3

COOKHAM COMPANY

Pedestrian Counts in Smithville, Pennsylvania
Date: Oct. 2, 1929

Place	Hour	No. of Pedestrians
Proposed Location	2:15–2:30	267
Store #3	2:30–2:45	273
Store #2	2:45–3:00	286
Store #4	3:00–3:15	313
Store #1	3:15–3:30	217
Store #4	3:30–3:45	311
Proposed Location	3:45–4:00	307

that the remaining 10% purchased most of their ready-to-wear apparel from stores located there. Although good bus service was provided between Smithville and the surrounding regions, many people in those areas used their own automobiles to visit the city. Excellent free parking facilities were furnished by the city.

The scout also found that the population of Smithville could be classified roughly into the following income classes: 10% high; 80% middle, and 10% low. The scout stated that Smithville was a typical example of the Pennsylvania coal mining and steel manufacturing towns in which the Cookham Company had been very successful. He reported, also, that the mills had been operating regularly, with only normal seasonal variations.

In cities with population between 50,000 and 75,000, the Cookham Company usually secured annual sales ranging from $3 to $9 per capita, with an average of $5; annual sales per counter foot averaged $330. The company's store most nearly comparable to the proposed store in respect to size of store and area of counter space had reached annual sales of $310,000 after four years' operation. The store most nearly similar to the proposed store with respect to size of city, type of industries, and number of persons employed had obtained sales of $209,000 during its first full year of operation.

To extend the building back 70 feet and to make the necessary alterations would cost about $54,000. The owner was willing to contribute $20,000 toward the cost of the addition and alterations, provided the Cookham Company would pay 8% interest on

the amount contributed, this 8% interest to be considered as part of the rent. The cost of fixtures for the new store would be $23,500.

The rent, including the 8% interest on the $20,000 contributed by the owner, would be $24,000 for the first 10 years, $26,000 for the second 10 years, and $28,000 for the last 10 years. The company always tried to secure leases for a term of 30 years and was unwilling to take any lease for less than 20 years. It was estimated that $8,550 could be obtained from subleasing part of the ground floor and the second floor, Other real estate charges, including taxes, insurance, heat, and the like, were estimated at $4,675 annually. The building would not be ready for occupancy for a period of three months following the signing of the lease; and the expenses of the building while unoccupied, including rent and other real estate charges, were estimated at $4,900. The cost value of the stock required for the opening of the store would be $35,000, and the expenses of opening the new store would be about $7,000. Gross margin was estimated at 31% of sales, and other income, chiefly discounts on purchases, at 1.55%. It was estimated that freight and express, which were considered store operating expenses, salaries and wages, and miscellaneous expenses controllable by the store manager would amount to 14.25% of net sales. Fixed charges, which included real estate expenses, depreciation of the cost of alterations over the period of the lease remaining after the store opened, depreciation of fixtures within a period of 10 years, merchandise taxes, and central office expenses, were estimated at 11.5% of net sales.

It was the policy of the Cookham Company not to open a new store if the total prospective investment in that store, including alterations, fixtures, stock of merchandise, expenses while unoccupied, and the opening expenses, exceeded 30% of the estimated sales. The Cookham Company, furthermore, did not open a store unless the net gain during the first full year of operation was expected to be greater than 5% of the sales and greater than 15% of the investment.

Should the Cookham Company have established a store in Smithville, Pennsylvania?

6. COOKHAM COMPANY (B)

VARIETY CHAIN—STORE LOCATION

In 1929 the Cookham Company, which operated a chain of variety stores, proposed to establish a new store in Inland City, New York. Two locations in the city were under consideration as sites for the new store. Inland City had a population of approxi-

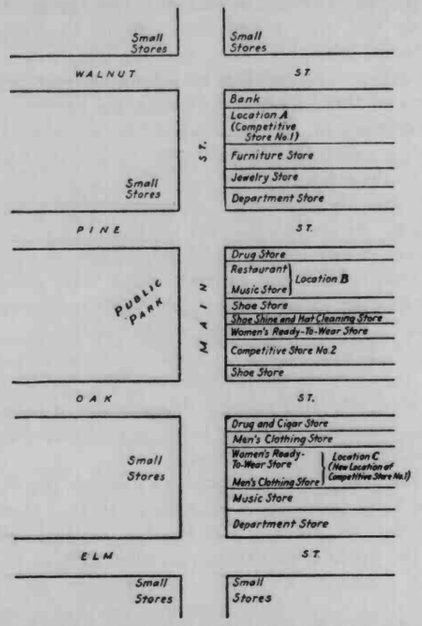


EXHIBIT 1.—Cookham Company. Retail district of Inland City, New York.

mately 50,000 in 1928, and was the trading center for an area with a population of 150,000. The city had numerous and varied industries, including the manufacture of radio apparatus, clothing, automobile accessories, and office equipment. The number of persons employed in the city was 11,000, of whom 2,200 were women. The surrounding country was chiefly agricultural.

Retail business was concentrated on one street within a space of three blocks. Practically all the stores were on one side of the street. On the other side of the street there were a few small stores and a park. The retail district of Inland City was as shown in Exhibit 1.

The two locations under consideration by the Cookham Company were those designated as A and B on the map shown as Exhibit 1. Location A was occupied by a chain company selling merchandise similar to that sold by the Cookham Company. This competitor, it was learned, planned to move to the location

EXHIBIT 2

COOKHAM COMPANY

Customer and Clerk Counts in Two Competing Stores in Inland City, New York

Date: Oct. 10, 1929 Time: 3 P.M.				Date: Nov. 13, 1929 Time: 3.15 P.M.			
Name of Store	Size of Store	No. of Clerks	No. of Customers	Name of Store	Size of Store	No. of Clerks	No. of Customers
Store #1...	50 × 90	19	63	Store #1	.....	21	42
Store #2...	50 × 100	9	20	Store #2	.....	9	16

Influence of these stores on traffic: Keep traffic on 3 blocks.

EXHIBIT 3

COOKHAM COMPANY

Pedestrian Counts in Inland City, New York

Date: Sept. 28, 1929			Date: Nov. 8, 1929		
Place	Hour	No. of Pedestrians	Place	Hour	No. of Pedestrians
Store #1.....	2:15–2:30	83	Store #1.....	2:15–2:30	87
Location B.....	2:30–2:45	118	Location B.....	2:30–2:45	135
Location C.....	2:45–3:00	107	Location C.....	2:45–3:00	104
Store #1.....	3:00–3:15	95	Store #1.....	3:00–3:15	94
Location B.....	3:15–3:30	121	Location B.....	3:15–3:30	120

designated as C on the map. The reason for the change was unknown to the Cookham Company. As part of its investigation, the Cookham Company made a customer and clerk count of two

competing stores in Inland City, the results of which were as shown in Exhibit 2. Pedestrian counts also were made, as shown in Exhibit 3.

The building at location A, which was 50 feet by 90 feet in size, could be leased for 30 years at $9,000 annually for the first 15 years and at $10,200 for the last 15 years. Other real estate

EXHIBIT 4

COOKHAM COMPANY

Estimated Investment, First Year Sales, and Operating Results of Stores at Proposed Locations A and B

	Location A	Location B
Estimated Sales	$160,000	$170,000
Alterations	9,000	6,000
Furniture and Fixtures	12,600	12,600
Merchandise Inventory	17,580	18,678
Unoccupied Expenses	1,125	.....
Opening Expenses	3,500	3,500
Total Investment	$ 43,805	$ 40,778
Gross Profit, including Discounts	52,240	55,505
Freight, Express, Pay Roll, and Miscellaneous Store Expenses	23,024	24,463
Margin Available before Fixed Charges	$ 29,216	$ 31,042
Rent	9,000	9,000
Taxes, Insurance, Heat	400*	2,025
Amortization of Alteration Costs (29½ years)	305	203
Depreciation on Furniture and Fixtures	1,260	1,260
Other Fixed Charges	9,856	10,472
Total Fixed Charges	$ 20,821	$ 22,960
Net Gain	8,395	8,082

* Heat only; insurance and taxes to be paid by owner.

expenses for this location were estimated at $705 annually. Alterations necessary to make the building suitable for a store would cost $18,000, of which the owner of the building agreed to contribute $9,000; the costs of alterations ordinarily were amortized over the period of the lease. The building would not be ready for occupancy for one and a half months, and costs during this period would be about $1,125. Location B, with a building 50 feet by 90 feet, could be leased for 30 years at an annual rental of $9,000 for the first 10 years, $10,500 for the second 10 years,

and $12,000 for the last 10 years. This building could be occupied immediately.

Two Cookham Company stores in other cities that were comparable to Inland City with respect to size and industries had had sales of $190,000 and $165,000 respectively during their first full year of operation. On the basis of these and other experiences, the company estimated that sales during the first full year of operation would be $160,000 in location A, and $170,000 in location B. Exhibit 4 shows the estimated sales, expenses incident to opening, operating expenses, and net profit for both locations A and B. Gross profit, discounts, freight and express, pay roll, miscellaneous expenses controllable by the store manager, depreciation of fixtures, merchandise taxes, and central office expenses were estimated by using fixed percentages of sales.

There seemed to be a trend of retail buying away from location A. The department store which occupied the corner at Elm Street had recently constructed the building it was using. It seemed likely that the Cookham Company's sales would increase more rapidly if the store were located at location B than they would if the store were at location A. The merchandise values offered by the Cookham Company's stores, however, usually resulted in the company's securing regular customers who preferred buying from Cookham Company stores to buying from other stores.

What site should the Cookham Company have selected for its new store in Inland City?

7. WINSTON COMPANY

AUTOMOBILE DEALER—CHANGE IN LOCATION

Until 1920 the Winston Company, an automobile dealer, occupied a salesroom, with garage facilities, in a location about two blocks from the downtown shopping district of a city of approximately 300,000 population. In that year the company found that the rental value of the location had risen to too high a point to justify its use for the retailing of automobiles. The company consequently chose a new location five or six blocks farther away from the downtown area of the city. On this site, which fronted on a main traffic artery leading to a high-grade

residential district, the company erected a 3-story building having 32,000 square feet of space.

At the time this building was constructed there were no buildings directly adjacent to it; the immediate vicinity had not yet changed from a residential to a commercial district, and the land value was about $900 per front foot. By 1927 the value of the site had risen to about $2,000 per front foot, and the company, to realize this increment in value, sold its building and real estate. In order to effect this sale, the company agreed to lease the building from the buyer for two years at an annual rental which was equal to nearly 3.5% of its annual net sales. Late in 1929 the company secured an option on a one-story building, containing 48,000 square feet, located in a thinly settled residential district about two and one-half miles from the center of the city. After this option had been obtained, the company took under advisement the question of using this outlying building in preference to the one it then occupied.

The building the company was using had not proved entirely satisfactory. The showroom, which was located on the ground floor, was adequate; but the storage and repair-shop portions of the building had become steadily more congested. The greater part of the company's servicing and repair work had to be done on the upper floors. The one freight elevator in the building did not offer an easy means of transporting automobiles, and there frequently was congestion when a number of customers appeared at one time to take delivery of cars which had been undergoing repairs. The only entrance and exit for the storage and repair rooms led through a narrow alley at the back of the building; and it was necessary for customers bringing automobiles for inspection, repair, servicing, or storage to make several sharp turns. Women drivers especially found difficulty in doing this. The alley connected two side streets leading into the main street on which the building faced. Inasmuch as a steady stream of automobiles passed along that street, it was hazardous to enter from the side streets. Neither was there adequate parking space in front of the building. Because of the increasing traffic congestion in the downtown parking areas, users of automobiles often left them along this street, and frequently all available parking spaces at the curb were occupied.

When it moved to its new location in 1920, the Winston Company had been the only retail automobile dealer in that vicinity.

Subsequently a number of other dealers had established themselves there, so that the street had taken on the appearance for a length of several blocks of an "automobile row." One of these dealers had settled on one side of the Winston Company and another on the other side; the buildings erected had cut off all side light from the Winston Company's interior rooms. Several years prior to 1929, however, there had commenced a gradual exodus of automobile dealers from the vicinity. A number of the dealers had moved to the residential area to which the Winston Company was considering moving.

The Winston Company acted as retailer for a well-known make of automobile the various models of which ranged in price from less than $600 to more than $800. The manufacturer through a subsidiary corporation offered consumers the privilege of paying for its automobiles on an installment basis. Practically all the customers of the Winston Company made use of one or another of the various installment schedules offered, under which the required initial payments ranged from one-third to one-half the price of the automobile purchased. The Winston Company accepted used cars as part payment for new cars, and nearly 80% of its car sales involved the acceptance of used cars.

There were two smaller retailers in the city selling the same make of automobile as the Winston Company. By an agreement among the three, the Winston Company operated exclusively in an area which included about half the city, and the other dealers confined their sales efforts to the remaining portion. Those dealers were located in residential sections on the opposite side of the city from both the existing and the contemplated locations of the Winston Company.

In addition to the sale of automobiles, the Winston Company operated a service department and also a parts and accessories department. As a matter of policy the company undertook to provide service only on those cars which it had sold, either new or after use, and carried parts and accessories for no make of car except the one for which it held the dealer's agency.

Net sales of the Winston Company for the year 1929 were approximately $680,000. The operating statement for that year was as shown in Exhibit 1.

The Winston Company gradually had expanded its salesforce. At first it had used few salesmen, relying chiefly on customers coming into the salesroom to make purchases. As competition

EXHIBIT 1

WINSTON COMPANY

Income and Expense Statement for Year Ending December 31, 1929

	Total Net Sales = 100 %	New Car Department		Used Car Department		Service Department		Parts & Accessories Department		Administrative
		Total Net Sales = 100 %	Dept. Net Sales = 100 %	Total Net Sales = 100 %	Dept. Net Sales = 100 %	Total Net Sales = 100 %	Dept. Net Sales = 100 %	Total Net Sales = 100 %	Dept. Net Sales = 100 %	Total Net Sales = 100 %
Net Sales	100.00 %	65.24 %	100.00 %	18.20 %	100.00 %	6.39 %	100.00 %	10.17 %	100.00 %	.....
Cost of Sales	78.15	51.21	78.49	17.99	98.86	2.51	39.27	6.44	63.38	.....
Gross Profit	21.85	14.03	21.51	.21	1.14	3.88	60.73	3.73	36.62	.....
Salaries—Owner	1.72	.94	1.45	.43	2.36	.26	4.02	.09	.85	.....
Salaries—Supervision	1.14	.51	.78	.28	1.54	.32	4.97	.03	.28	.....
Salaries—Clerical	.98	.35	.53	.16	.86	.09	1.46	.03	.30	.35
Salaries—Salesmen	1.37	1.25	1.92	.12	.66	.....	.....	.....	.....	.....
Commissions	3.46	2.61	3.99	.85	4.68	.....	.....	.....	.....	.....
Bonuses	.02	.00	.00	.02	.08	.....	.....	.....	.....	.....
Unapplied Time (Shop Wages)	.63	.....	.....	.....	.....	.63	9.93	.....	.....	.....
Other Salaries	1.08	.....	.....	.10	.56	.....	.....	.53	5.20	.45
Delivery Expense	1.02	.97	1.48	.05	.26	.....	.....	.....	.....	.....
Installation Bodies, Accessories, etc.	.15	.11	.19	.....	.....	.....	.....	.04	.35	.....
Demonstration Expense	.60	.60	.92	.00	.00	.....	.....	.....	.....	.....
Policy Adjustments	.95	.86	1.32	.09	.48	.00	.09	.....	.....	.....
Heat, Light, Power, & Water	.41	.12	.19	.12	.62	.03	.55	.01	.13	.13
Supplies	1.08	.05	.08	.31	1.73	.52	8.08	.05	.48	.15
Maintenance	.18	.01	.01	.00	.01	.00	.06	.02	.24	.15
Advertising—Local	.76	.58	.88	.16	.89	.02	.29	.....	.....	.00
Advertising—Cooperative	.57	.47	.73	.10	.53	.....	.....	.....	.....	.....
Rent	3.41	1.53	2.35	1.29	7.12	.42	6.40	.17	1.68	.....
Freight, Express, etc.	.08	.....	.....	.....	.....	.....	.....	.08	.83	.....
Membership & Dues	.04	.....	.....	.....	.....	.....	.....	.....	.....	.04
Company Car Expense	.16	.14	.21	.....	.....	.01	.09	.01	.06	.....
Telephone & Telegraph	.23	.....	.....	.....	.....	.....	.....	.....	.....	.23
Postage	.05	.....	.....	.....	.....	.....	.....	.....	.....	.05
Travel and Entertainment	.12	.04	.06	.....	.....	.01	.11	.....	.....	.07
Legal & Auditing	.05	.....	.....	.....	.....	.....	.....	.....	.....	.05
Insurance—General	1.00	.....	.....	.....	.....	.....	.....	.....	.....	1.00
Taxes (Other than Real Estate and Federal Income)	.01	.....	.....	.....	.....	.....	.....	.....	.....	.01
Depreciation	.18	.....	.....	.....	.....	.10	1.55	.02	.19	.06
Miscellaneous	.12	.....	.....	.....	.....	.....	.....	.....	.....	.12
Total Direct Expense	.....	11.14	17.09	4.08	22.38	2.41	37.60	1.08	10.59	.....
Administrative Expense Prorated	.....	1.72	2.64	.57	3.16	.37	5.84	.20	1.98	2.86
Total Expense	21.57	12.86	19.73	4.65	25.54	2.78	43.44	1.28	12.57	.....
Operating Profit	.28	1.17	1.78	4.44*	24.40*	1.10	17.29	2.45	24.05	.....
Additions to Income	1.34	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total Income	1.62	.....	.....	.....	.....	.....	.....	.....	.....	.....
Deductions from Income	1.26	.....	.....	.....	.....	.....	.....	.....	.....	.....
Net Gain	.36 %	.....	.....	.....	.....	.....	.....	.....	.....	.....

* Figures shown in red.

grew more severe in the industry, the company had employed additional salesmen, until, in 1929, it had 25. At that time it was securing over 70% of its customers through the outside work of its salesmen. To facilitate the securing of prospective customers by the salesforce, the company had divided the half of the city in which it operated into rigidly defined areas, each including about 7,000 people. One salesman was assigned to each of these areas. By making door-to-door calls, using city directories and telephone books, and obtaining suggestions from customers, he was expected to make contacts with every potential purchaser in his district. This program meant that the salesmen need never be idle, since in the company's experience almost every family was a potential buyer for the company's make of automobile. To persons of small income, the company based its appeal on low first cost; to persons of medium income, the appeal of low first cost was strengthened by the appeal of economical operation and the desirability of keeping up to date by securing a new car at frequent intervals; to wealthy purchasers the company sought to sell its models as second or third cars for family use.

Some years prior to 1929 the company had divided its salesforce into two groups, one group to sell new cars and the other to sell used cars. There were three salesmen in the latter group in 1929. Despite this segregation of the salesforce, new-car salesmen were permitted to sell used cars when an opportunity arose. If, for instance, a prospective customer secured by a new-car salesman proved not to be interested in a new automobile, the salesman was at liberty to suggest the purchase of a used car. If this purchase was made, the new-car salesman received the entire commission.

The Winston Company had experimented with various plans of paying salesmen. These plans included payment of salaries only; commissions only; both salaries and commissions; and salaries, commissions, and bonuses. This last plan was in effect during 1929. The commission paid by the Winston Company on a new car sale which involved the acceptance of a used car in trade was based on the difference between the price of the new car and the allowance for the used car, and not on the full price of the new car.

Allowances to be made for used cars were determined by the manager of the used car department. When a salesman interviewed a prospective customer who already had an automobile,

it was the salesman's duty to endeavor to arrange a demonstration of the new car before discussing appraisal of the used car. This policy was followed in an endeavor to combat the practices of customers who shopped around among various automobile dealers, endeavoring primarily to secure the best offer for their used cars with little reference to the merits of a new automobile or to the service and repair facilities of the dealers. While the Winston Company did not plan to earn a net profit on used car sales, it desired if possible to avoid losses on such transactions. It was for this reason that the company's salesmen were instructed always to find out exactly what type of automobile a prospective customer needed and to carry the sales approach through the actual demonstration of a new car before considering the trade-in allowance to be offered on the prospective customer's used car.

When a potential sale had progressed to the point where appraisal of a used car was necessary, the used car department manager examined the car carefully. Usually the prospective customer drove to the company's showroom to inspect the various models on display there and left his own car as near this point as possible. Often, because of congestion, the nearest parking place was several blocks away. Consequently the appraiser was obliged to make his inspection of the customer's used car at a considerable distance from the company's office.

The appraiser was familiar, through long experience and study of used car values, with the approximate value of each model and make of automobile regularly sold in the United States. Although he possessed rating books and other current information on used car values, he had to give careful study to the condition of each used car offered, before deciding upon its allowance value to the company. It was necessary to estimate, for instance, the out-of-pocket costs to the company of any mechanical work which was needed to put the used car in good running order, as well as the costs of cleaning, of oiling, and, at times, of painting it in part or in whole. The rating books which were available included one supplied several times a year by the manufacturer whose cars the Winston Company sold, as well as others published for the trade as a whole. Although kept reasonably up-to-date, these books at best could show only average values for each make and model of automobile. The appraiser, after weighing the rating-book values and the cost of reconditioning each car, had also to consider the individual customer as a bargainer, before settling

the final trade-in allowance. Some cars offered in exchange were so old, or in such bad condition, that reconditioning was out of the question. Such cars were accepted at "scrap" values, usually somewhat higher than the actual amount that could be realized from their sale to dealers in scrap metal and parts. The direct losses on these trade-ins were borne by the manufacturer.

The Winston Company kept accurate records of used car transactions; for each used car accepted, the records showed the following data: Date Accepted; Make; Model; Year of Manufacture; Motor or Stock Number; Appraiser; Condition (whether to be scrapped, reconditioned, or immediately put on sale); Take-in Price; Estimated Selling Price; Actual Selling Price; Gross Spread (the difference between Actual Selling Price and Take-in Price); Estimated Cost of Reconditioning; Actual Cost of Reconditioning; Net Spread (the difference between Gross Spread and Actual Cost of Reconditioning); and Number of Days in Stock.

Since the company made a practice always of reconditioning used cars which it offered for re-sale, it had ample experience on which to estimate costs of reconditioning. The estimated selling price was based on both the final cost of the used car, that is, the sum of the trade-in allowance and the actual costs of reconditioning, and on competitive conditions. Competition had reached a point of great intensity, since throughout the industry the sale of almost every new car involved acceptance of a used car; in many instances, sales of used cars, in turn, meant acceptance of other used cars. As a result of the severe competition, the company's actual selling prices on used cars were almost always below the final costs of the cars to the Winston Company. When a car had been in stock for more than 30 days, the company began to pay especial attention to disposing of it; price reductions usually were ordered if other means failed to effect the sale of cars which had been in stock between 30 and 60 days. The Winston Company's sales of used cars, in units, were about 45% of its total sales. Costs of reconditioning used cars were included among the expenses of the used car department.

In the new-car department, mark-downs were infrequent. Models were changed yearly by the manufacturer, but the Winston Company had ample warning of the changes and usually was able to reduce its inventory to a minimum before the new models were offered. The Winston Company was not forced by the manufacturer to take cars other than those ordered. The company placed its orders once a month with the manufacturer's salesman, and thus was able to keep its stocks closely in balance with demand. Inventories of new cars were turned almost 12 times yearly.

In analyzing the problem of relocation, the Winston Company found that the tendency of other automobile retailers to move away from the downtown district had not been confined to firms carrying any one grade of car; the dealers who had changed their locations were about equally divided among those selling high-price, medium-price, and low-price cars. These dealers reported no dissatisfaction with the new locations. The Winston Company had taken the option on the outlying building primarily because its executives saw an unusual opportunity to secure control of desirable real estate. The building was of modern factory construction; it had entrances for automobiles on two sides; was easily accessible from an uncrowded, well-paved residential street; was within five minutes walking distance of two street car lines; and could readily be adapted to meet all the company's needs. The site included ample land to provide parking space, and there were no restrictions on the use of the property.

The option was on a contract to lease the building for five years at an annual rent which was about 1.5% of the Winston Company's net sales in 1929. The lease contract under option also provided that at any time during the five years the Winston Company could purchase the property at a price which seemed relatively low. The Winston Company believed that the city would continue to grow in the direction of this property. The company knew, because of several offers already received, that it could dispose of its option at a profit if it so desired.

SECTION IV

STORE LAYOUT AND MERCHANDISE CLASSIFICATION

SUGGESTED READING

Brisco & Wingate, *Retail Buying*, Chap. XX.

Fri, *Retail Merchandising*, pp. 45–46.

Hahn & White, *The Merchants' Manual*, Chap. IV.

Harvard University Bureau of Business Research, *Management Problems in Retail Grocery Stores* (1918), pp. 36–41.

Hayward & White, *Chain Stores* (3d Ed.), Chap. VI.

"How Far Should Retail Departmentization Be Carried?" (*Harvard Business Review*, January, 1929).

Knapp, *Store Management and Business Organization* (Alexander Hamilton Institute, Modern Merchandising Texts, Vol. II), Chaps. IV–V.

Lies & Sealy, "Planning a Department-Store Layout" (*New York University Journal of Retailing*, April, 1928).

Nystrom, *Economics of Retailing* (3d Ed.), Vol. II, Chaps. VII–VIII.

1. HESWELL COMPANY

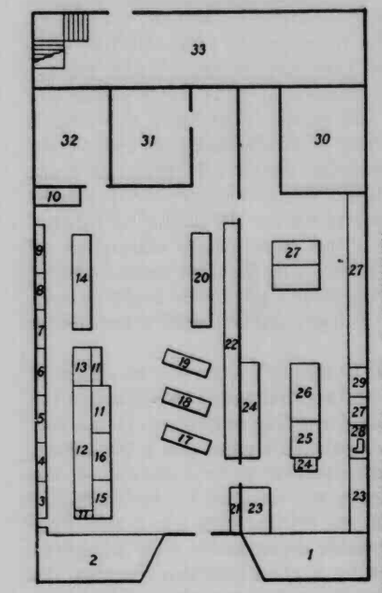
UNIT GROCERY STORE—LAYOUT

Early in 1930 the manager of the Heswell Company studied the layout of his store with a view to securing a more effective utilization of space. The Heswell Company operated a unit grocery store with annual sales of approximately $125,000 in staple and fancy groceries, vegetables, and meats. The store was located on one of the main thoroughfares of a suburban city, about eight blocks from a secondary shopping center. It drew its trade primarily from nearby apartment houses and private dwellings, and had established a good reputation for the quality of its merchandise and of its service. Prices were plainly marked on all the merchandise sold by the store. The manager estimated that approximately two-thirds of the store's sales were made by telephone, the merchandise being charged and delivered to customers' homes.

The layout of the Heswell Company's store was as shown in Exhibit 1. The entire width and approximately two-thirds of the depth of the building were used for selling purposes. In the rear third of the building were the manager's office and a large room used for the assembling of merchandise to be delivered by the company's truck. Storage space was confined to the basement, where the heating plant and the refrigeration plant also were located. The meat and vegetable departments were separated from the grocery department by a glass partition running the length of the store. Access to these departments was provided by two doors, one at either end of the partition. It was impossible to enter the meat and vegetable departments directly from the street. The manager was of the opinion, however, that no sales were lost to these departments because customers had to enter through the grocery department. On the contrary, he believed the store should be so rearranged that customers would be drawn farther into the grocery department before entering the meat department; he thought it impracticable simply to close the door at the front and force customers to use the rear door, however, since the rear door opened into that portion of the meat market

where the meat cutters worked. With the existing layout, few customers used the rear door.

Staple merchandise was kept on the shelves near the order desk (13), and the higher-margin fancy merchandise on the display stands near the door. Cereals were placed on the counter (12), near the front door, where they were somewhat concealed



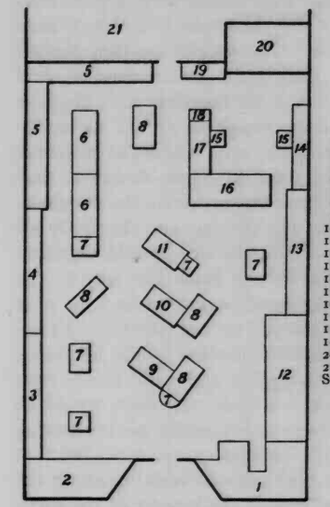
1. Vegetable Display Window.
2. Grocery Display Window.
3. Mayonnaise, Pickles, Salad Dressings, and Sauces.
4. Canned Sea Foods and Fancy Canned Goods.
5. Sweet Wine, Grape Juice, and Malted and Canned Milk.
6. Gelatine, Vinegar, Tapioca, Instantaneous Coffee, and Toilet Soaps.
7. Salad Oils, Syrups, Flavoring Extracts, Bird and Animal Foods, Eggs, and Prepared Beverages.
8. Baking Powder, Soda, Starch, Floor Polish, Antiseptics, Cleaning Preparations, Raisins, and Canned Soups.
9. Jellies, Spices, and Bread.
10. Refrigerator—Dairy Products.
11. Jellies and Jams.
12. Cereals.
13. Order Desk—Telephone.
14. Wrapping Counter.
15. Olives and Ginger Ale.
16. Confectionery and Fancy Canned Goods.
17. Dried Fruits, Candied Nuts, Jams and Jellies.
18. Crackers and Cookies.
19. Canned Fruits.
20. Canned Vegetables and Other Canned Goods.
21. Cookies.
22. Cleaning Powders, Packaged Flour, and Cookies.
23. Fruits and Vegetables.
24. Citrous Fruits.
25. Display Case—Vegetables.
26. Display Case—Meats.
27. Cutting Table.
28. Meat Slicer.
29. Desk—Telephone.
30. Refrigerator Room.
31. Cashier.
32. Office.
33. Rear Room.

Store 35 × 60 Feet (Selling Area 35 × 42 Feet).

EXHIBIT 1.—Heswell Company. Existing layout of store.

by the display stands. Drawers and bins had been constructed below the shelves along the left-hand wall for the storage of bulk goods such as beans and nuts, and packaged goods such as sugar, flour, matches, and shoe polish. There were shelves under the wrapping counter (14); on the front side laundry soaps were stored, while on the other side packaged sugar and cleansing powders were stacked. Tea and coffee were displayed on shelves below the level of the cashier's window in front of the cashier's office.

The window on the right-hand side of the store was used primarily for the display of fresh vegetables and fruits, from which items were selected to fill customers' orders. The window display on the left-hand side of the store consisted principally of cans of fruits. In the center of the window was a cardboard back piece about five feet high. The manager doubted whether the window



1. Fruit and Vegetable Window.
2. Grocery Window.
3. Bottled Goods, Preserves, and Fancies.
4. Biscuits, Semi-fancies, and Staples.
5. Rapid-moving Merchandise.
6. Wrapping Counter.
7. Floor Display.
8. Table.
9. Cigars.
10. Candy.
11. Baked Goods.
12. Fruit and Vegetable Department.
13. Canned Foods, Staples.
14. Meat Table.
15. Meat Block.
16. Meat Case.
17. Meat Counter.
18. Meat Slicer.
19. Flour.
20. Cooler.
21. Back Room.

Selling Area 27 × 40 Feet.

EXHIBIT 2.—Heswell Company. Store layout suggested in "Better Grocery Stores" (*The Progressive Grocer*, 1928).

display was of much importance in promoting the sale of specific goods; he believed rather that an attractive display was of value in creating a favorable impression of the store as a whole.

Among the plans of layout considered by the manager was one prepared under the direction of *The Progressive Grocer* for stores of approximately the same size as the Heswell Company, shown as Exhibit 2. The theory underlying this layout plan was that a successful grocery store must make every effort to present the proper appeal to its customers' five senses. Of the five senses taste was considered the least important, since only rarely was a customer allowed to sample merchandise. Hearing was important in that the store was to be so arranged as to obviate the necessity of raising the voice above ordinary conversational tones. Smell

was important in that all offensive smells must be eliminated; hence the designers had attempted so to arrange the store that there would be no dark corners in which dirt could be concealed. Touch and sight were the main factors to be considered. The designers of this layout believed that if a customer could pick up a piece of merchandise and handle it she would be much more likely to purchase than if the merchandise were displayed in a glass case or on a shelf beyond her reach. For this reason, counters were eliminated so far as it was possible. The only items that needed to be inaccessible to customers were bulk goods, candies, and cigars. Sight was considered, in that all counters and displays in the middle of the floor were low enough to permit an unobstructed view of the entire store from any spot where the customer might be standing. The fixtures were to be so designed that attention would not be focused on them but rather on the merchandise. Counters were to be used only in the rear and then only for wrapping purposes. A customer visiting the store would therefore be drawn past all the merchandise as she made her way to the wrapping desk. Rapid selling merchandise was to be kept near the counters. Bread would be displayed on the counter. Fancy groceries on which a higher margin was obtained would be placed near the front of the store. If the display cases and tables were grouped in the center of the floor two wide pathways would be formed, one of which the customers probably would use in entering the store and the other in leaving. The designers advocated that window displays be low in order that persons walking along the street might have an unobstructed view of the interior of the store. This recommendation was based on the assumption that a general view of an attractive store would have greater drawing power than would a mere display of merchandise in the windows.

2. EVERS & CHANCE COMPANY

DEPARTMENT STORE—LAYOUT OF WOMEN'S SHOE DEPARTMENT

The divisional merchandise manager and the buyer for the women's shoe department of the Evers & Chance Company thought in 1925 that by a rearrangement of the layout of the department they could increase the stock space and the display

space, and improve the appearance of the department, without increasing the actual number of square feet which it occupied. The Evers & Chance Company was considered one of the high-grade department stores in its city. A large proportion of its sales were made on credit.

The layout of the women's shoe department of the Evers & Chance Company's store in 1925 originally was as shown in Exhibit 1. The stock in the department was arranged along the sides of the three aisles, which were called selling bays. In the

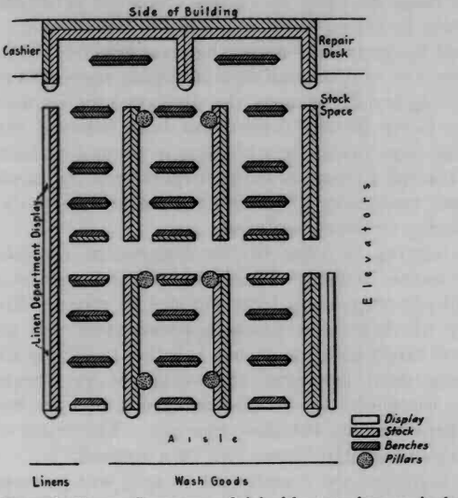


EXHIBIT 1.—Evers & Chance Company. Original layout of women's shoe department.

right-hand selling bay were evening slippers, colored kid, brown suede, and black suede shoes; in the center selling bay were tan calf, black calf, and black satin shoes; and in the left-hand selling bay were patent leather, white kid, and sport shoes.

A salesperson could sell shoes from any section of the department, but his regular station was in one of the bays. Whenever possible, a section manager ascertained from a customer, before she was seated, in what type of shoe she was interested. He then directed her to the selling bay containing this type of shoe, and called one of the salespeople in that bay to wait on her.

The stock fixtures in the department were approximately six feet high and had flat tops with beveled edges. On both sides were shelves in which the boxes of shoes fitted. Although the fixtures were well made and of pleasing appearance, the divisional merchandise manager thought that they could be arranged more attractively. Also, the height of these fixtures prevented the section managers from observing all parts of the department.

The divisional manager and the buyer wished to place all the merchandise in forward stock, if possible, in order to afford a wider range of styles and sizes. Such an arrangement would necessitate increased stock space in the department. This plan could not be carried out under the arrangement shown in Exhibit 1. Moreover, only a small area of display space was provided by the existing layout, whereas the divisional merchandise manager and the buyer for the department both believed that displays inside the department were of value in promoting sales; they not only attracted customers to the department but saved salespersons' and customers' time, for customers frequently requested shoes similar to those displayed.

The seating facilities of the department consisted entirely of large leather settees. These were old fashioned in appearance and bulky, occupying a large amount of space. Although the capacity of these settees was approximately 140 persons, the customers rarely sat close enough together to occupy all the space. The department employed an average of 30 salespersons. In addition there were two section managers, a buyer, two clericals, and a divisional merchandise manager. The trend of sales and inventory of the department had been upward.

The layout of the department in 1925 was rearranged within the same actual floor area to appear as shown in Exhibit 2. The merchandise was arranged as follows: in the right-hand stock sections, from front to rear, were evening slippers, colored kid, brown suede, black suede, and tan calf shoes; in the rear section, on the right side, were black calf shoes; in the rear section, in the back, were black satin shoes; in the rear section, on the left side, were patent leather shoes; on the left side, above the center aisle, were patent leather and white shoes; and in the left section, between the center aisle and the front of the department, were sport shoes.

The new arrangement increased by five times the amount of available display space within the department; it increased

the stock space about 20%. Even with this increase, the stock space in the department was crowded, but the use of a small stock room at the rear of the elevators made it possible to keep all the stock on or near the selling floor. In the stock room were kept rubbers, overshoes, out-of-season shoes, and a reserve stock of slippers. The stock in this room was arranged by sizes and materials so that it was conveniently accessible to the salespeople.

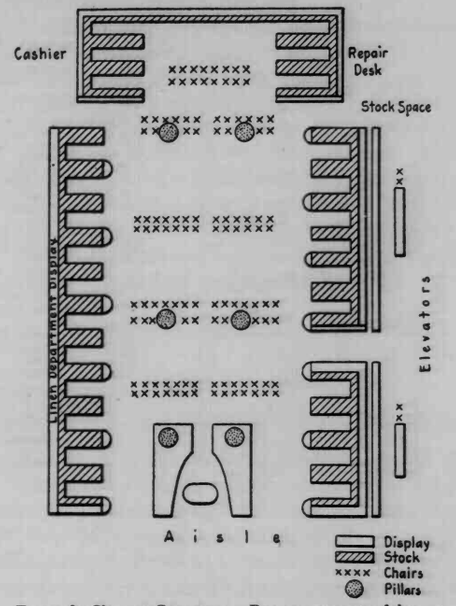


EXHIBIT 2.—Evers & Chance Company. Rearrangement of layout of women's shoe department.

3. NEWELL & COMPANY

DEPARTMENT STORE—LAYOUT OF READY-TO-WEAR DEPARTMENTS

In the spring of 1924 the divisional merchandise manager for the ready-to-wear departments in the store operated by Newell & Company suggested that a change be made in the layout of the

fourth floor, on which women's and misses' ready-to-wear garments were sold. He believed that the stock rooms should be reduced in size and that more merchandise should be shown on open fixtures where it could be readily inspected by customers.

Newell & Company, which had 84 selling departments and an annual gross sales volume of approximately $15,000,000,

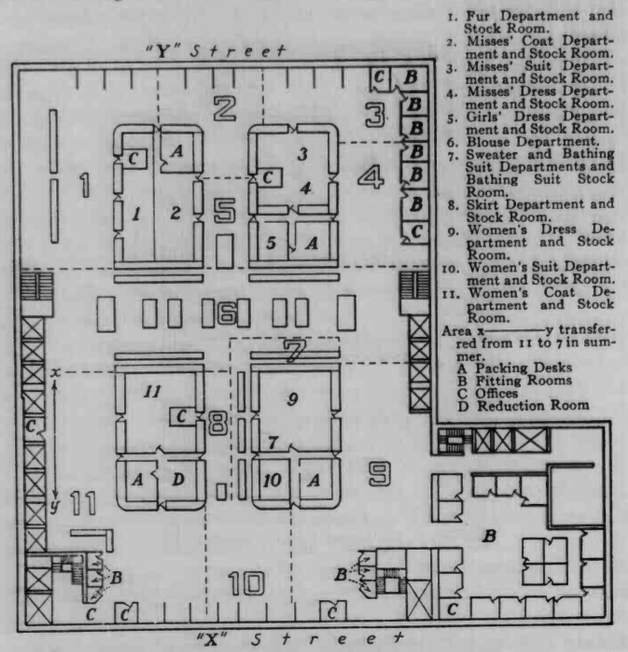


EXHIBIT 1.—Newell & Company. Plan of fourth floor, showing location of ready-to-wear departments.

served wealthy people and those in moderate circumstances. It was situated in the principal department store district, with entrances on X Street and on Y Street.

The existing location of the ready-to-wear departments was as shown in Exhibit 1. As indicated in the floor plan, the merchandise was classified primarily on the basis of age of wearer. The four rectangular areas shown in the plan were stock rooms in which the greater part of the merchandise was kept. Around

three sides of each stock room were glass-enclosed cases in which garments were displayed on wax models and on fixtures in much the same manner as merchandise ordinarily was displayed in the store windows. Blouses were displayed on tables in the center aisle which traversed the floor from side to side. The long aisle passing through the center of the selling floor, from X Street to Y Street, was narrow; and the immediately adjoining space was occupied by tables and counter displays.

Along the windows on X Street and on Y Street sets of fixtures had been arranged to form small booths. In the wide aisles around the stock rooms settees were placed at regular intervals. Chairs also were placed conveniently in order that customers might be seated while salespeople displayed garments. Customers were not permitted to enter the stock rooms. Salespersons ordinarily were unable to return to stock any of the garments which were being considered until customers had made their decisions.

Should Newell & Company have made the proposed change in the layout of the fourth floor departments?

4. ORME COMPANY

DEPARTMENT STORE—LOCATION OF MEN'S HAT DEPARTMENT

In the fall of 1924 the merchandise manager of the Orme Company, which owned and operated a department store, considered the advisability of moving the men's hat department from the fourth floor of the store building to the street floor. He believed that this change would increase net sales in the men's hat department and also in the men's furnishings departments, which already were located on the first floor along with the usual small-wares departments. Men's goods were not sold on any floors other than the first and fourth.

The Orme Company sold high-grade wearing apparel for men, women, and children. Annual net sales were about $10,000,000. The store maintained an excellent delivery system and provided special service features for its customers.

The men's furnishings departments, including sections for shirts, collars, hosiery, underwear, and neckwear, were located along the right of the center aisle on the street floor. An entrance

to the store near these departments opened on a side street. Annual sales of men's furnishings amounted to $400,000.

The men's hat department, however, was on the fourth floor, where men's clothing and wearing apparel, such as suits, overcoats, shoes, and sporting equipment, were sold An express elevator was operated from the street floor to the fourth floor. The men's hat department had been placed on the fourth floor for four reasons: first, this department needed a large space both for display purposes and for reserve stock; second, the light on the fourth floor was better than that on the main floor; third, sometimes when purchasing a suit a man liked to buy a hat to match; fourth, in buying a hat, a man usually liked to observe the effect of the various colors and styles of hats on himself, but sometimes he was embarrassed if large numbers of people were passing to nearby departments selling other merchandise. The sales in the men's hat department of the Orme Company amounted to about $80,000 a year. Hats were sold in this department at retail prices ranging from $4 to $12 each.

The merchandise manager of the store believed that, if a man happened to see attractively displayed a hat of a color or style which he liked, he might buy it on impulse even though he had not entered the store with the intention of purchasing a hat. The merchandise manager was of the opinion, therefore, that the men's hat department should be located where the largest number of men would be likely to see the displays. Traffic in the store, of course, was heaviest on the street floor. He estimated that the location of the men's hat department on the main floor near the men's furnishings departments would increase the annual net sales of the hat department to about $90,000, and would increase sales of the other men's furnishings departments to $425,000 a year.

Several exclusive shops which sold men's hats only were located within a few blocks of the Orme Company's store. The relative accessibility of the department was, therefore, a competitive factor.

If the men's hat department were moved to the street floor, it would be necessary to condense the men's furnishings departments to provide space for this department. Location on the first floor would allow the men's hat department only about 75% as much space as that department had been occupying on the fourth floor.

Should the men's hat department of the Orme Company have been moved from the fourth floor to the street floor?

5. CRADDOCK COMPANY

DEPARTMENT STORE—DUPLICATION OF MERCHANDISE IN DIFFERENT DEPARTMENTS[1]

The women's hosiery department of the Craddock Company was located on the street floor, near the front, where traffic through the store was heaviest. This department had been placed on the first floor because the management believed that when customers saw an attractive display they frequently purchased stockings on impulse. The total volume of sales of women's hosiery in the Craddock Company's store for several years had approximated $1,000,000 annually.

The hosiery department carried a wide variety of styles and grades of women's hosiery in wool, cotton, lisle, silk, and various combinations of these materials. The prices per pair varied from 75 cents for cotton hose to $45 for lace openwork hose. The average hosiery sales check in the store was $2.65. No seconds or similar inferior grades of hosiery were sold in the store.

The various style numbers of hosiery comprehended a wide range of colors. Sometimes there were as many as 40 different colors and shades in one style number. All hosiery carried in full lines of colors was stocked in five different sizes; some of the more popular style numbers were carried in seven different sizes. A few unusual style numbers were carried in fewer colors and sizes. During the spring season of 1924 the average stock of women's hosiery in the department was $100,000 at cost. The gross margin on women's hosiery for that season was 32.5% of net sales, and total expense for the same season was 28% of net sales; the rate of stock-turn was approximately 7 times a year.

In order to enable women to match shades of hosiery with their newly purchased shoes, the management in the fall of 1923 had established an auxiliary women's hosiery department next to the women's shoe department on the second floor of the store. The women's shoe department was located directly in front of the elevators, which were at the rear wall of the store. The

[1] See case of the Norlin Company, 2 H.B.R., 286.

auxiliary hosiery department was treated as an integral part of the women's hosiery department on the street floor; the same buyer and the same divisional merchandise manager supervised both departments. The auxiliary department held no special sales and did practically no advertising. When that department first had been established, the innovation had been mentioned in the store's advertising. Since that time, however, the department had been operated simply as a service to customers.

The auxiliary hosiery department carried only silk hosiery. The buyer stocked in that department the six or seven selected style numbers which seemed to be most popular in the street-floor department, and which had the largest range of colors. A full stock of colors and sizes in these style numbers was carried both in the auxiliary department and in the main hosiery department.

The divisional merchandise manager in charge of the hosiery departments estimated that less than 5% of the total sales of women's hosiery in the Craddock Company were made in the auxiliary department. He also estimated that about 5% of the total stock of women's hosiery was carried in this department and that the rate of stock-turn in this department was about 5 times a year.

The rental charge to departments was based on the real estate value of the space used and was proportionately greater for the main floor than for the second floor. The space on the second floor used by the auxiliary hosiery department was small and, in the opinion of the divisional merchandise manager, was not valuable for any other department. Thus the rent charged to this department was proportionately less than that charged to the main hosiery department. The limited stock of the auxiliary department, however, resulted in lower sales per salesperson. The divisional merchandise manager estimated that total expenses for the auxiliary department were higher by about 2% of sales than those in the women's hosiery department on the street floor. Both departments maintained approximately the same percentage of mark-up.

In February, 1925, the colors of women's shoes seemingly had become standardized to some extent in shades of gray, tan, brown, and black. Apparently the shades of hosiery also had become partly standardized in flesh and tan, with some black and

white. The divisional merchandise manager, therefore, did not believe that customers would continue to think it necessary to match the shades of their shoes and hosiery.

Should the Craddock Company have continued to operate the auxiliary department for women's hosiery?

6. HUNTLEY COMPANY

DEPARTMENT STORE—CLASSIFICATION AND LAYOUT OF READY-TO-WEAR

During the two years prior to the spring of 1929 the Huntley Company had made several changes in the arrangement of its women's ready-to-wear division. Nevertheless, early in 1929 some of the officers of the company were of the opinion that further rearrangement was desirable. The Huntley Company was a large department store serving a metropolitan area with a population of over 1,000,000; it sold merchandise of medium and high grade.

During these two years the company had followed in its ready-to-wear division a classification according to the age of the wearer; that is, women's dresses, coats, and all outer apparel, except millinery, had been grouped in one section of the store; and misses' dresses, coats, and all outer apparel, except millinery, had been placed in another section. The distinction between women's and misses' garments was not exact, and there was considerable overlapping of sizes. In general, however, women's dresses were cut larger in the arms, bust, and waist than were misses' dresses of corresponding sizes. Furthermore, the sleeves and skirt were longer, and the neck was likely to be cut lower. There were some styles which were little worn by misses but which sold well in the women's departments, such as dresses featuring a surplice front; and similarly there were other styles, such as bouffant-skirted evening gowns, which were worn by misses and not by women. Misses' dresses were likely to be found in more advanced designs and in a wider range of colors than women's dresses.

Prior to the fall of 1927 the classification according to the age of the wearer had not been followed completely; for while the misses' apparel had been grouped on the third floor, with

the infants' and children's departments, the women's apparel had been divided between the second and fourth floors. Women's coats and higher-price dresses had been on the second floor, together with the millinery departments. House dresses and women's inexpensive dresses had been on the fourth floor.

Recognizing, however, that the overlapping of sizes between the women's and misses' dress departments made it desirable for these departments to be near each other, the Huntley Company had decided, in the fall of 1927, to concentrate the ready-to-wear departments on the second floor. At the same time, the company had remodeled the second floor and installed many new fixtures. In this rearrangement the millinery departments had been placed on the third floor, and the misses' departments had been transferred to the second floor. The women's inexpensive dress department, formerly located on the fourth floor, had been moved to the second floor. Its price range had been changed from $10.75–$22.50 to $10.75–$25, to correspond with the price range in the misses' inexpensive dress department. House dresses at prices from $2 to $8.75, which formerly had been sold on the fourth floor near the women's inexpensive dresses, had been left on the fourth floor. A few cotton afternoon dresses and ensembles had been added to the house dresses at prices as high as $13.75. Women's and misses' higher-price dresses at prices ranging from $25 to $160 had been divided, dresses at $50 and over being placed in salons at the rear of each department. Early in 1928, junior misses' garments had been separated from misses' garments and concentrated in a new department. The layout of the second floor following the separation was as shown in Exhibit 1. In addition to the ready-to-wear departments on the second floor and the house dress department on the fourth floor, there was on another floor a French salon which sold imported dresses from $95 up.

When these changes in layout had been made, special advertising had been used to acquaint the public with the new locations of the departments. During the year following the change, sales of the ready-to-wear division had increased materially; but it was not known whether this increase had been due to the rearrangement of the division or to a special advertising campaign which had been carried on for the new junior misses' department. This campaign had attracted wide attention, and the junior misses' department had achieved a substantial volume of sales.

It was impossible, however, to determine the increase in sales of junior misses' garments, because separate figures had not been kept when these lines had been included in the misses' departments.

Following the separation of the junior misses' department, the various departments sold garments as follows: The College Shop, located in the southwest corner of the floor, sold dresses designed for the girl of college age. This was the misses' higher-

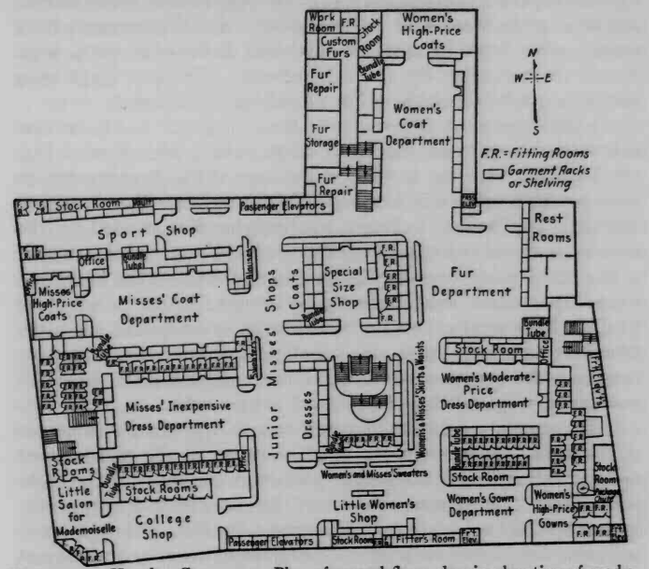


EXHIBIT 1.—Huntley Company. Plan of second floor, showing location of ready-to-wear departments.

price dress department; it had been named the College Shop simply to designate in an out-of-the-ordinary manner the age or size of the customers making up the clientele to which it was designed to cater. In addition to dresses at prices from $25 up, the College Shop sold a few silk and transparent velvet coats for use in ensembles and with evening gowns. At the rear of the shop was the Little Salon for Mademoiselle, in which dresses at $50 and over were shown. Except for a few garments displayed on models, the garments in the College Shop were kept in stock

rooms and were brought out only as customers wished to see them. The misses' inexpensive dress department was located on the west side of the floor, next to the College Shop. The dresses in this department were carried on racks along the sides of the department. The misses' coat department, next to the misses' inexpensive dress department, carried coats at prices as high as $200 in the spring and $400 in the fall. The high-price coats were sold in a separate salon at the rear of the department, while moderate-price coats were sold on one side of the department; both groups were kept in stock rooms, and individual coats were shown to customers by the salespersons. Cheaper coats were carried on racks along the other side of the department.

In the northwest corner of the floor, adjacent to the misses' coat department, was the Sport Shop, which was divided into two sections, with the section at the rear of the department set aside for high-price merchandise. In the summer there was considerable duplication between the merchandise carried in the misses' inexpensive dress department and the merchandise carried in the Sport Shop, because the afternoon dresses in the inexpense dress department were virtually sportswear. Otherwise, there was but little duplication between the Sport Shop and the other departments on the floor, since the Sport Shop carried complete ensembles for sports wear, and the other departments, so far as possible, eliminated these items from their stocks.

The women's coat department was in the northeast corner of the floor. It was similar in price range to the misses' coat department and had a separate section at the rear for the high-price coats. In general, it carried larger and more matronly coats than the misses' coat department carried, although there was some overlapping of sizes. The fur department was on the east side of the floor. During the summer this section of the floor was used for bathing suits. Next to the fur department was the women's moderate-price dress department, which was similar to the misses' inexpensive dress department and, like it, sold dresses at prices from $10.75 to $25. In the southeast corner of the floor was the women's gown department, comparable to the College Shop. This shop had a high-price section at the rear similar to the Little Salon for Mademoiselle and carried gowns in the stock rooms as did the College Shop.

In the center of the south side of the floor was the Little Women's Shop, selling coats and dresses at prices over $25,

in small sizes cut for a matronly figure. For dresses priced under $25, small women had to be fitted in one of the inexpensive dress departments. Across the aisle from the Little Women's Shop was a counter where sweaters for women and misses were sold. Near this counter was another where skirts and blouses for women and misses were sold. The junior misses' department, located in the center of the floor, was divided into four sections, one for coats, one for dresses, one for sweaters, and one for blouses. In the center of the north side of the floor was the Special Size Shop, comparable to the Little Women's Shop but for large rather than small women.

In the spring of 1929 a number of the executives of the company who were not in the merchandise division advocated that the ready-to-wear departments be rearranged according to some other classification than the age of the wearer.

There were four general bases on which merchandise in the ready-to-wear division might be classified. First, the departments might be arranged according to the types of garments sold; that is, all dresses would be placed together in one section of the store, all coats in another section, and all sweaters in a third. Many women wore sizes which were sold in both women's and misses' departments. The second basis on which apparel might be classified was according to the age of the wearer. On this basis coats, dresses, and sweaters for women would be grouped in one section of the store; those for misses in a second section; and those for junior misses in a third. The belief was expressed that this method of classification would stimulate friendly competition between the women's and misses' departments. The third method, which ordinarily was combined with some adaptation of one of the first two methods, was the grouping of the merchandise in small special shops, such as a sport shop, a college shop, and a special size shop. The fixtures for such shops were expensive, but the displays of complete ensembles including accessories were thought to be effective in stimulating demand. The fourth possible basis of classification was that of price. This commonly was found in stores which operated basement stores. Such stores placed low-price merchandise in the basement and medium-price and high-price merchandise in the main store.

Unless the store was small, merchandise was not classified on any one of these bases exclusively. It might be divided first according to the age of the wearer, misses' apparel being placed

EXHIBIT 2

HUNTLEY COMPANY

Advertisement Published in April, 1929

fit your type . . . and not your age . . .
Age has disappeared from the World of Fashion. Being smart now is a matter of "being your type" and not "being your age."
Consult this diagram and decide what type you are and where you are best fitted in Huntley's.
Huntley can fit every type and size of femininity.

	Coats	Frocks and Ensembles
cut Missy Women	Women's Coat Section sizes 36 to 42 Misses' Coat Section sizes 14, 16, 18, and 20 years	Women's Gown Section Women's Moderate-price Dress Section College Shop Misses' Inexpensive Dress Section Sport Shop
cut Average Misses	College Shop Misses' Coat Section Sport Shop	College Shop Misses' Inexpensive Dress Section Little Salon for Mademoiselle Little Women's Shop Sizes 18½ to 24½
cut Womanly Women	Women's Coat Section Sizes 36 to 42 Little Women's Shop Sizes 34½ to 40½	Women's Gown Section Sport Shop Little Women's Shop Women's Moderate-price Dress Section
cut Junior Misses	Their Own Shop where coats are always just one step ahead of all other coats, where lines are as peppy and new as the "lines" of these little pepsters themselves. Junior Misses' Shops	Junior Misses' Shops frocks for stepping out frocks for stepping in frocks for all the mad whirl that means being a Junior Miss in 1929.
cut Special Size	Special Size Shop coats designed with an eye to longer lines, and more graceful fashions that are at the same time new and smart, are in abundance here.	Special Size Shop fitting frocks that really fit! prices range from 16.50 to 95.00 sizes 42½ to 52½

HUNTLEY

together in one section of the floor, women's apparel in another section, and junior misses' apparel in a third; but within this classification the merchandise usually was divided further according to type, price, size, or special appeal.

Early in April, 1929, the company published the advertisement shown in Exhibit 2. While this advertisement was published as institutional copy to show customers where to obtain the merchandise they desired, it suggested that rearrangement of the departments might be desirable, since it was necessary to list some departments under several headings.

Should the Huntley Company have rearranged the layout of its ready-to-wear departments?

7. GARSTON COMPANY

DEPARTMENT STORE—LOCATION OF DEPARTMENTS

The Garston Company operated one of the principal department stores in a middle-western city of approximately 1,000,000 population. Its sales in 1925 amounted to $15,000,000, chiefly in medium-price merchandise.

The Garston Company was well located in the retail shopping area of the city. The store occupied three different buildings and part of a fourth, all adjoining or connected, which had been acquired at various times as the steady growth of the company made expansion necessary. Two of the main buildings had five stories and the other had six stories, but all three were of the same height. The position of the six-story building with relation to the others was as indicated on the ground floor plan (Exhibit 1) by the situation of Department 13 and the front half of Department 29. The two five-story buildings each had high ceilings on the first and second floors; whereas the six-story building had low ceilings. Consequently the third floors of the former two buildings were about on a level with the fourth floor of the latter building. Passage from one building to another, however, was made easy by gradual inclines on all floors. The Garston Company obtained additional floor space by renting the second and third floors of an adjoining building.

In front of the store on the south side was the busiest retail street in the city, Broadway; in the rear was Short Street, a

narrow street little used by shoppers. On the west side was Chestnut Street, an important cross street; and on the other side was a narrow alleyway not used by customers.

The Garston Company had 73 selling departments. These departments and the employee restaurant occupied 200,745

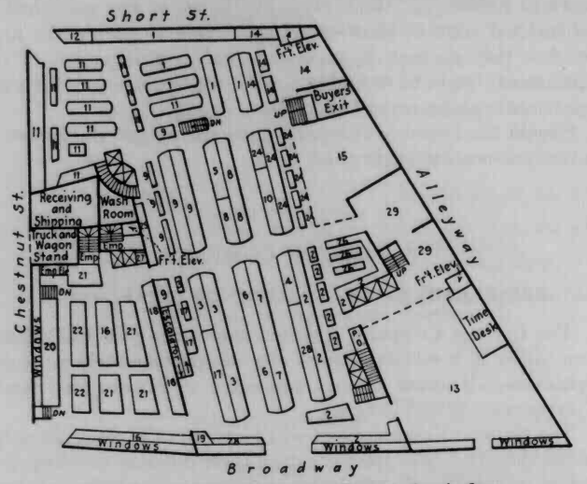


EXHIBIT 1.—Garston Company. Layout of main floor.

square feet of floor space. The average number of salespeople in 1925 was 570. The departments of the store were located as shown in Exhibits 1 to 6. Pertinent data on the operation of these departments in 1925 were as given in Exhibits 7 to 12.[1]

Should the Garston Company have made any change in the layout of its departments?

[1] Three of the departments, which were on balconies around the main floor, do not appear on the floor plans. These departments were the Hair Goods Department, No. 69, the Circulating Library, No. 70, and the Barber Shop, No. 71. The Contract Department did not occupy selling space; the sales were made by two or three special salesmen, who took large orders from hotels and office buildings; most of the merchandise thus sold came from Departments Nos. 63 and 50, and part of it from Departments Nos. 52, 66, and 54. Boys' Clothing and Furnishings, Department No. 72, which was on the third floor of the six-story building, was between the second and third floors of the other buildings. No floor plan is shown for this department. Exhibit 7 shows the number of square feet, the number of salespeople, and the net sales, for the three balcony departments, for the boys' clothing and furnishings department, on the third floor of the six-story building, and for the restaurant. It also gives the sales of the contract department. Exhibits 8 to 12 present similar information by departments for each of the selling floors.

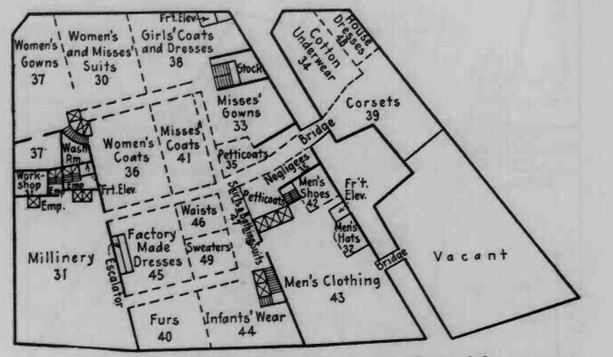


EXHIBIT 2.—Garston Company. Layout of second floor.

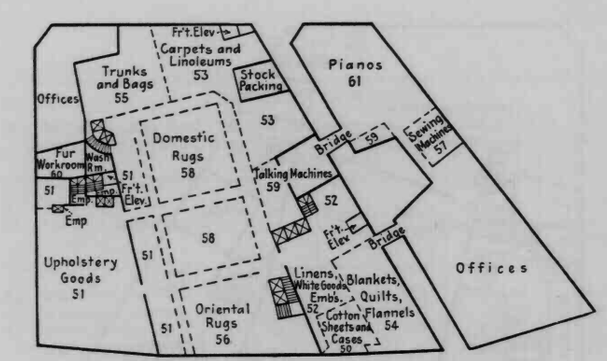


EXHIBIT 3.—Garston Company. Layout of third floor.

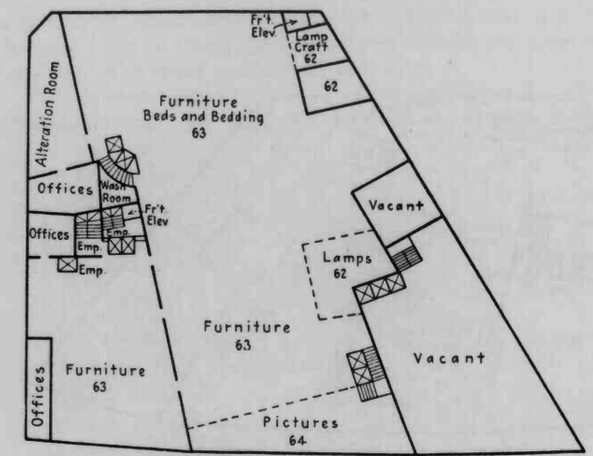


EXHIBIT 4.—Garston Company. Layout of fourth floor.

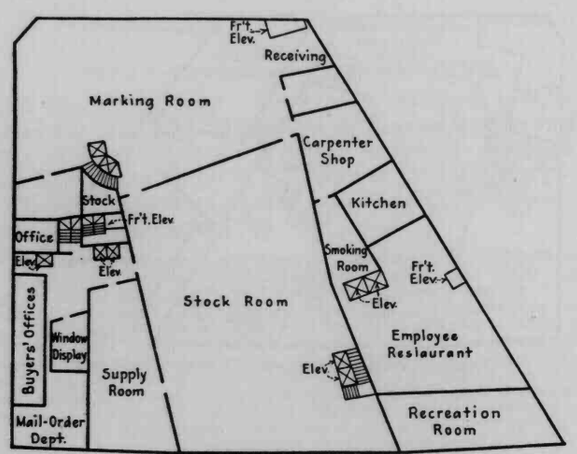


EXHIBIT 5.—Garston Company. Layout of fifth floor.

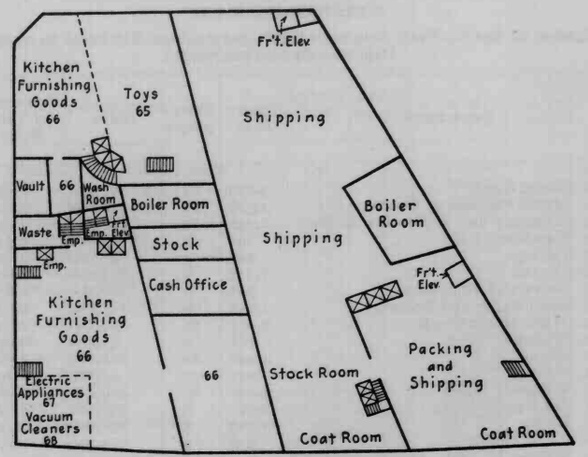


EXHIBIT 6.—Garston Company. Layout of basement.

EXHIBIT 7

GARSTON COMPANY

Number of Square Feet, Number of Salespeople, and Net Sales in 1925 for Balcony Departments, Boys' Clothing Department, Contract Department, and Restaurant

Department	Square Feet	Sales-people	Sales	Percentage of Total Sales
69 Hair Goods	3,436	35	$103,500	0.69%
70 Circulating Library	357	2	7,500	0.05
71 Barber Shop	684	10	40,500	0.27
Total Balcony	4,477	47	$151,500	1.01%
72 Boys' Clothing—Furnishings	6,816	13	390,000	2.60
73 Contract (No Store Salesmen)	.....	..	276,000	1.84
.. Employee Restaurant (Fifth Floor)	6,223	22	22,500	0.15

EXHIBIT 8

GARSTON COMPANY

Number of Square Feet, Number of Salespeople, and Net Sales in 1925 in Departments on First Floor

Department	Square Feet	Salespeople	Sales	Percentage of Total Sales
1. Dress Goods	3,170	13	$ 307,500	2.05%
2. Men's Furnishing Goods	2,578	11	306,000	2.04
3. Women's and Children's Hosiery	1,092	10	298,500	1.99
4. Handkerchiefs	290	2	81,000	0.54
5. Linings	440	3	90,000	0.60
6. Gloves	1,215	6	153,000	1.02
7. Laces and Trimmings	935	7	100,500	0.67
8. Smallwares and Buttons	1,035	9	115,500	0.77
9. Wash Dress Goods	2,072	15	274,500	1.83
10. Ribbons	748	4	40,500	0.27
11. Silks	4,042	22	828,000	5.52
12. Velvets	242	2	43,500	0.29
13. Women's Shoes	5,232	20	459,000	3.06
14. Art Needle Work	2,075	8	153,000	1.02
15. Books	2,309	5	171,000	1.14
16. Toilet Goods	973	4	190,500	1.27
17. Women's and Children's Knit Underwear	941	7	175,500	1.17
18. Silverware—Cutlery	1,139	4	153,000	1.02
19. Umbrellas and Parasols	294	...	63,000	0.42
20. Cut Glass	583	2	70,500	0.47
21. Jewelry—Clocks—Cameras	1,726	9	193,500	1.29
22. Leather and Fancy Goods	1,279	7	168,000	1.12
23. Men's Underwear—Combined with Department 2	.....	2	34,500	0.23
24. Stationery	504	8	112,500	0.75
25. Paper Patterns	400	2	25,500	0.17
26. Men's Hosiery	532	4	91,500	0.61
27. Optical Goods	66	1	12,000	0.08
28. Veilings and Neckwear	890	6	139,500	0.93
29. Children's Shoes	1,500	6	108,000	0.72
	38,302	199	$4,959,000	33.06%

EXHIBIT 9

GARSTON COMPANY

Number of Square Feet, Number of Salespeople, and Net Sales in 1925 in Departments on Second Floor

Department	Square Feet	Salespeople	Sales	Percentage of Total Sales
30. Women's and Misses' Suits	1,403	3	$118,500	0.79%
31. Millinery	7,693	30	400,500	2.67
32. Men's Hats	495	1	25,500	0.17
33. Misses' Gowns	1,896	5	232,500	1.55
34. Cotton Underwear	2,086	8	198,000	1.32
35. Petticoats—Negligees	2,207	5	129,000	0.86
36. Women's Coats	2,891	11	456,000	3.04
37. Women's Gowns	2,790	8	295,500	1.97
38. Girls' Coats and Dresses	2,341	6	186,000	1.24
39. Corsets	2,691	14	216,000	1.44
40. Furs	1,900	6	438,000	2.92
41. Misses' Coats	1,982	12	436,500	2.91
42. Men's Shoes	506	1	43,500	0.29
43. Men's Clothing	5,815	10	633,000	4.22
44. Infants' Wear	2,473	11	259,500	1.73
45. Factory-made Dresses	2,700	8	247,500	1.65
46. Waists	1,550	5	105,000	0.70
47. Skirts and Bathing Suits	1,402	3	75,000	0.50
48. House Dresses	811	3	120,000	0.80
49. Sweaters	964	4	100,500	0.67
	46,596	154	$4,716,000	31.44%

EXHIBIT 10

GARSTON COMPANY

Number of Square Feet, Number of Salespeople, and Net Sales in 1925 in Departments on Third Floor

Department	Square Feet	Salespeople	Sales	Percentage of Total Sales
50. Cottons—Sheets and Cases	1,152	4	$234,000	1.56%
51. Upholstery Goods	12,391	39	814,500	5.43
52. Linens—White Goods—Embroideries	3,457	9	352,500	2.35
53. Carpets and Linoleums	2,855	1	187,500	1.25
54. Blankets, Quilts, and Flannels	3,073	6	261,000	1.74
55. Trunks and Bags	2,685	2	88,500	0.59
56. Oriental Rugs	2,900	1	85,500	0.57
57. Sewing Machines	1,166	1	24,000	0.16
58. Domestic Rugs	10,020	9	346,500	2.31
59. Talking Machines	3,268	8	189,000	1.26
60. Fur Work Room	1,210	..	87,000	0.58
61. Pianos	3,503	5	28,500	0.19
	47,680	85	$2,698,500	17.99%

EXHIBIT 11

GARSTON COMPANY

Number of Square Feet, Number of Salespeople, and Net Sales in 1925 in Departments on Fourth Floor

Department	Square Feet	Salespeople	Sales	Percentage of Total Sales
62. Lamps	1,932	6	$138,000	0.92%
63. Furniture—Beds—Bedding	26,726	15	952,500	6.35
64. Pictures	2,569	2	85,500	0.57
	31,227	23	$1,176,000	7.84%

EXHIBIT 12

GARSTON COMPANY

Number of Square Feet, Number of Salespeople, and Net Sales in 1925 in Basement Departments

Department	Square Feet	Salespeople	Sales	Percentage of Total Sales
65. Toys	3,430	4	$120,000	0.80%
66. Kitchen Furnishings Goods	15,004	18	343,500	2.29
67. Electric Appliances	990	4	55,500	0.37
68. Vacuum Cleaners (with Electric Appliances)	.....	1	91,500	0.61
	19,424	27	$610,500	4.07%

8. MONISON COMPANY

VARIETY CHAIN—LOCATION OF DEPARTMENTS

In September, 1929, the Monison Company, which operated a chain of 50 variety stores, found it necessary to change the departmental layout of Store 43, which it had opened in the spring of 1929 in a large middle-western city. The problem had arisen as a result of the company's decision to partition off part of the store's selling space to provide necessary additional stock room space.

The Monison Company sold merchandise at prices ranging from 5 cents to $1. Total sales for the chain in 1928 amounted to over $12,000,000. The gross margin for the year was 33.7% of net sales, while expenses were about 25% of net sales. The

company endeavored to have its stores uniform in general appearance and design, and to this end it had developed standard floor plans. Inasmuch as the company rented its buildings, however, and had to adapt the layout to whatever space was available, actually not more than half the company's stores conformed to

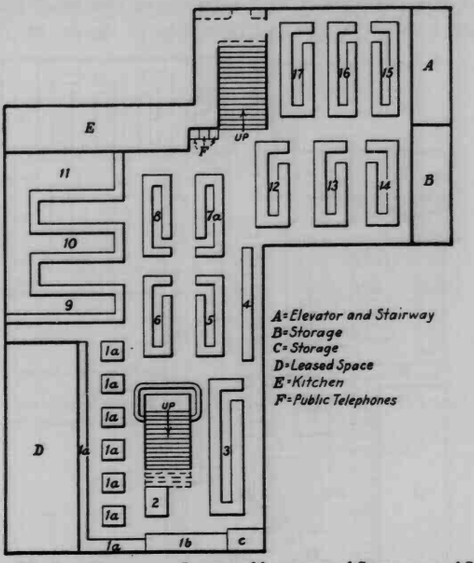


EXHIBIT 1.—Monison Company. Layout of basement of Store 43 as of September 14, 1929.

the standard plans. Store 43, for instance, could not be laid out in the prescribed manner because the building was irregular in shape and so constructed that only the rear half could support a third floor, the one usually used for a stock room. The company had found that in general approximately one-third as much space was needed for storage as was used for selling. In Store 43, however, only one-sixth as much space was available for storage as for selling. Consequently, in the middle of September, 1929, when Christmas merchandise began to arrive, it was necessary to divert some of the selling space on the second floor to use for storage purposes.

The existing floor plans for Store 43 were as shown in Exhibits 1, 2, and 3. The company decided, after it had studied the problems of the store, to partition off as additional stock room space that section of the second floor where counters 36b, 37, 38, and 39 were located. The space occupied by counter 36b would be used as a passageway and entrance to this stock room. The proposed location of the partition was as shown by the dotted

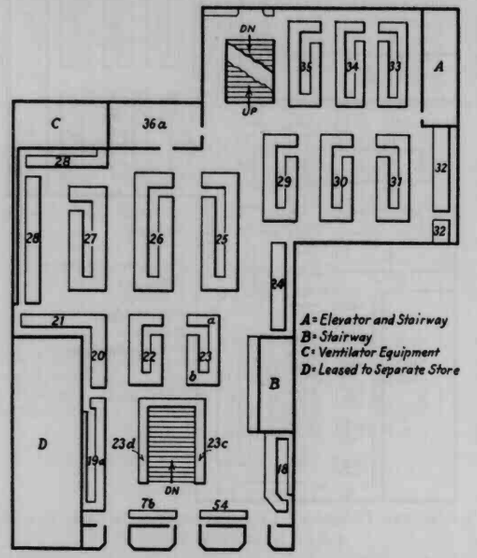


EXHIBIT 2.—Monison Company. Layout of main floor of Store 43 as of September 14, 1929.

line on Exhibit 3. Sales of Store 43, by registers, for the second week in September, 1929, were as shown in Exhibit 4.

Sales at counter 36b were recorded on register 37. Counter 44 was a small counter and no register had been placed on it, sales being recorded instead on register 42. Register 44 had been placed on counter 45, register 45 on counter 46, and so on. Registers 53 and 54 had both been on counter 54, with register 54 on the portion nearest the office. In June, register 54 had been transferred from counter 54 on the second floor to the counter just inside the front

door on the main floor, which was then given the number 54, as shown in Exhibit 2, and register 53 was used for the whole of counter 54 on the second floor. Counters 54 (first floor), 7b, 23c, and 23d were used for the clearance of merchandise which was being discontinued, for the introduction of new merchandise, and for the display of merchandise which had not had a satisfactory sale in another location. The merchandise sold here was constantly

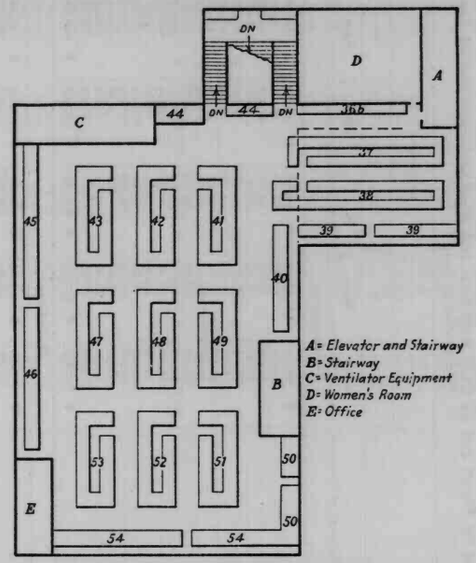


EXHIBIT 3.—Monison Company. Layout of second floor of Store 43 as of September 14, 1929.

being changed; sometimes two or three different items were sold in succession on these counters in one day. Register 1b was removed from counter 1b and placed on a small table used for special displays at various strategic locations such as between counters 21, 22, 26, and 27, or between counters 20 and 22. (Sales from counter 1b thereafter were recorded on register 2.) Register 19b also was used on a similar table at times.

The Monison Company purchased through its central offices all merchandise sold in the stores and required each store to sell

EXHIBIT 4

MONISON COMPANY

Sales of Store 43, Classified by Floors and by Cash Registers, and Weather Conditions for Each Day in Week of September 9, 1929

Date	September						Total for Week
	9	10	11	12	13	14	
Register Number and Department	**Rain**	**Fair**	**Fair**	**Fair**	**Rain**	**Rain**	
Basement							
1a. Millinery	$ 73.39	$ 68.67	$ 75.08	$ 77.22	$ 68.56	$ 242.37	$ 05.29
2. Notions	12.11	12.23	13.52	11.15	9.64	32.76	91.41
3. Curtains	57.24	39.01	32.75	25.93	39.13	91.47	285.53
4. Children's Underwear	12.23	9.77	16.01	6.10	9.06	36.00	89.17
5. Ladies' Rayon Wear	29.15	23.39	33.48	16.04	26.75	88.91	216.72
6. Ladies' Wear	30.47	29.70	43.76	28.40	18.40	75.65	226.38
7a. Children's Wear	54.66	24.73	49.67	22.04	16.40	83.72	251.22
8. Boys' Wear	47.57	60.27	86.65	24.34	17.51	68.25	304.59
9. Cafeteria	86.55	75.39	78.25	59.76	62.80	118.26	481.01
10. Cafeteria	69.15	42.85	55.03	53.30	44.88	88.45	353.66
11. Cafeteria	28.10	18.30	20.50	18.25	18.25	44.15	147.55
12. Children's Wear	33.74	43.04	35.84	9.69	19.91	20.46	162.68
13. Children's Wear	23.48	6.84	23.16	12.29	6.52	28.26	100.52
14. Art Goods	11.48	9.73	20.38	11.39	8.15	21.52	82.65
15. Dry Goods	6.92	9.15	.86	4.38	10.43	16.27	48.01
16. Infants' Wear	35.32	24.02	15.21	15.72	24.93	51.90	167.10
17. Infants' Wear	40.32	16.82	28.62	21.49	24.51	48.49	180.25
Total	$ 651.85	$ 513.91	$ 627.77	$ 417.49	$ 425.83	$1,156.89	$ 3,793.74
Main Floor							
1b. Slippers	$ 5.10	$ 5.19	$ 7.91	$ 7.00	$ 8.00	$ 7.00	$ 40.20
7b. Cookies	31.77	18.60	17.73*	14.92	12.21	32.88	128.11
18. Soda Fountain	56.35	72.50	57.60	48.00	42.15	115.15	391.75
19a. Root Beer	53.51	48.31	48.30	31.73	15.75	127.75	325.35
19b. Specials	2.30	1.98	4.88	2.89	8.85	26.89	47.79
20. Records	31.50	34.04	32.21	35.61	42.87	101.81	278.04
21. Jewelry	17.25	8.10	23.54	16.26	4.20†	15.80	85.15
22. Jewelry	58.20	53.18	72.19	63.13	52.98	132.33	432.01
23a. Candy	28.20	16.35	23.18	16.60	15.45	51.80	151.58
23b. Candy	28.82	20.45	22.60	21.95	22.05	43.42	159.29
23c. Specials	83.48	64.10	87.00	63.00	35.00	135.00	467.58
23d. Specials	76.68	27.00	29.65	11.44	31.94	111.34	288.05
24. Ribbons and Handkerchiefs	19.53	17.71	20.07	16.80	14.70	32.10	120.91
25. Children's Hosiery	71.71	51.13	68.37	24.62	36.54	125.34	377.71
26. Toilet Articles	86.93	59.47	58.21	52.43	49.05	159.49	465.58
27. School Supplies	54.64	32.09	38.21	23.73	29.63‡	55.59	234.49
28. Novelties	37.53	37.85	37.14	32.75	43.32	90.20	278.79
29. Ladies' Hosiery	69.28	48.48	59.45	49.01	42.74	206.69	475.65
30. Fancy Goods	17.72	17.55	22.74	21.01	18.40§	55.51	152.93
31. Shoes	54.43	45.13	50.05	12.91	30.44	88.88	281.84
32. Music	19.35	15.15	25.10	21.75	19.80	37.65	138.80
33. Men's Wear	18.14	22.63	17.69	11.96	13.51	65.34	149.27
34. Men's Wear	38.14	28.13	36.84	14.09	17.82	62.85	197.87
35. Men's Wear	35.05	24.44	20.44	11.77	25.38	76.06	194.04
36a. Photo Studio	8.00	7.00	16.00	6.00	5.00	21.00	63.00
54. Hosiery	29.25	18.15	34.03	16.82	33.59‖	86.75	218.59
Total	$1,033.76	$ 795.31	$ 931.13	$ 648.18	$ 671.37	$2,064.62	$ 6,144.37
Second Floor							
37. Toys, Specials, Pictures, and Mirrors	$ 30.74	$ 21.49	$ 14.29	$ 24.59	$ 22.44	$ 59.11	$ 172.66
38. Toys, Games, and Books	16.21	14.59	12.06	10.05	18.41	45.69	117.01
39. Dolls	7.69	5.19	4.84	13.85	.50	18.72	50.79
40. Small Hardware	7.33	3.99	3.01	6.06	6.86	18.72	45.97
41. Hardware	26.88	16.03	18.35	12.89	28.71	55.75	158.61
42. Radio Supplies	18.60	17.70	21.47	22.89	38.04	91.64	210.34
43. Automobile Accessories	15.44	3.70	12.00	11.91	8.38	34.62	86.05
44. Oilcloth	8.84	8.90	13.02	11.43	7.73	26.77	76.69
45. Crockery and House Furnishings	18.15	7.78	7.21	6.62	5.41	23.17	68.34
46. Glassware	9.04	9.85	13.95	18.49	12.51	23.00	86.84
47. Cutlery and Kitchen Ware	13.24	10.44	8.28	16.92	9.26	24.62	82.76
48. House Furnishings	14.15	12.10	6.39	7.19	11.04	23.18	74.05
49. Lamps and Shades	14.44	19.43	14.69	10.33	12.09	31.52	102.50
50. Electrical Supplies	41.44	45.59	24.33	24.75	24.53	72.91	233.55
51. Electrical Fixtures and Supplies	25.40	11.46	14.33	14.63	22.81	44.99	133.52
52. Aluminum Ware	24.95	6.49	8.35	13.15	12.13	30.02	95.09
53. Enamel Ware and Tin Ware	17.41	6.55	12.22	14.12	6.54	20.57	77.41
Total	$ 309.95	$ 221.28	$ 208.69	$ 240.47	$ 247.39	$ 645.00	$ 1,872.78
Store Total	$1,995.56	$1,530.50	$1,767.59	$1,306.14	$1,344.59	$3,866.51	$11,810.89

* Candy.
† Specials.
‡ Fancy Goods.
§ Stationery.
‖ Millinery.

all lines purchased. Although the company had not developed uniform merchandise layout plans for the stores and had not made any systematic study of the best location for particular departments, executives believed that some merchandise could be sold more readily in certain cities than in others and consequently should be given the preferred locations in the stores in those cities. There were a few items which the company required all the stores to carry on the main floor, namely, candy, hosiery, jewelry, novelties, fancy goods, toilet articles, and either sheet music or records. Notions and stationery also were usually sold on the main floor. A majority of the stores had a soda fountain conveniently placed just inside the store entrance on the right-hand side. A refreshment counter selling sandwiches and cold drinks usually was located on the opposite side. The candy and jewelry counters were located in the center near the front, while phonograph records were sold at a side counter just beyond the soda fountain or refreshment counter.

From certain experiments which it had carried on the company had learned that customers were more likely to go to the basement than to the second floor to make purchases. Consequently, those items usually were placed on the second floor which customers were likely to visit the store with a definite intention of buying, such as electrical fixtures, hardware, kitchen ware, and radio accessories. Electric light bulbs, on which the company obtained a high mark-up, usually were purchased by customers on impulse, and hence were generally placed on the second floor, near the stairway. In one store the company had moved the radio department to the main floor. A marked increase in sales of that department had resulted, but the increase had not offset the decrease in sales of the impulse merchandise with which its location had been exchanged. For this reason the company had adopted a general policy of locating all radio departments on the second floor.

Most of the merchandise on the second floor, except dolls and toys, was of a staple nature. For competitive reasons this merchandise was carried at a low mark-up. While sales in the second floor departments were smaller than in most other departments, they were relatively constant; and little promotional effort was needed. Sales for these departments in Store 43, however, were not so high as the sales for corresponding departments in other stores in the chain.

The company had found that constant changes of displays were required in order to maintain the sales of merchandise on the main floor. If a display was left on the same counter for more than two or three days, customers began to pass by that counter without making purchases. If the display then was moved to another counter or if the arrangement was changed, however, the sales were stimulated. The frequency with which displays were changed did not exert so marked an influence on sales either in the basement or on the second floor, where merchandise was more nearly staple than on the first floor.

It had been the experience of the company that the end of a counter was a much better location for display than the side. In Store 43, it had been found by actual experiment that the same merchandise sold more readily on certain counters than on others; for instance, sales at the rear end of the jewelry counter, number 22, were greater than at the front end of counter 26, just across the aisle, and were about 4 times higher than at the front end of counter 25, diagonally across the aisle. Part of the popularity of counter 22 was undoubtedly attributable to the special lighting fixtures placed there; but the store manager believed that they were not alone responsible, although he was unable to suggest any other explanation.

The Monison Company did not advertise its merchandise or stores in newspapers or magazines, but depended almost entirely on its window displays to attract customers. Occasionally, however, the stores printed handbills announcing special sales and distributed them in the stores. The window displays did not indicate the location of the merchandise in the store.

The company had made no attempt to departmentize expenses, to allocate rental charges to individual departments, or to record mark-up figures by departments. Sales were kept according to cash registers rather than counters or merchandise departments. In Store 43 there was one cash register on each counter, except on the candy counter, where there were two, and all sales from a counter were recorded on its register. Each register was numbered, but the numbers did not always correspond with the counter numbers. Moreover, each cash register did not represent one department. For instance, the men's wear department occupied three counters, and its sales were recorded on three registers; while the radio and sporting goods departments were combined on one counter, and sales for both departments were

recorded on the same register. In many cases, moreover, in addition to the main type of merchandise sold at a counter, dissimilar merchandise was displayed. For instance, a counter listed as selling stationery might have a special display of ladies' hosiery at one end, and sales of both items were recorded on the same register. On one occasion a special purchase of chocolate bars had been displayed on every counter in the store, and sales of this item had been recorded along with sales of the regular merchandise of those counters. In each department the buyer of the special merchandise received credit for such sales through the use of tallies. Whenever a salesperson sold one of these foreign items, she marked it on a tally sheet. The tally sheets were sent to the home office with the sales report.

What rearrangement of merchandise should have been made in Store 43?

SECTION V
SALES POLICIES

SUGGESTED READING

BRISCO & WINGATE, *Retail Buying*, Chap. XIX.

Controllers' Congress of the National Retail Dry Goods Association, "Relation of the Volume of Sales to the Cost of Doing Business" (*Report and Digest of the Proceedings, Fifth Annual Convention*—1924, pp. 94ff.).

———"Does Expense Ratio Actually Increase with Volume?" (Ibid., pp. 96ff.).

FRASER, "Can the Small Merchant Compete with the Large Store?" (*Harvard Business Review*, July, 1925).

HAHN & WHITE, *The Merchants' Manual*, Chap. XXX.

HAYWARD & WHITE, *Chain Stores* (3d Ed.), Chap. XI.

NYSTROM, *Economics of Retailing* (3d Ed.), Vol. II, Chap. XVII.

Ohio State University Bureau of Business Research, *The Nature of Unfair Methods of Competition in the Retail Field.*

University of Nebraska, *Special Sales in Retail Merchandising.*

See also case of the Scanlan Company, 7 H.B.R., 496.

1. FAIRVIEW COMPANY

DEPARTMENT STORE—SALES POLICIES

On Monday, June 12, the buyer for women's suits in the Fairview Company, which operated a medium-size department store, received from the accounting office the following statement:

EXHIBIT 1

FAIRVIEW COMPANY

Department Manager's Weekly Statement
Department 37—Women's Suits
Week Ending—June 10
(Net Sales = 100%)

	This Year	Last Year
Sales (Retail)	$ 9,765	$11,482
Stock (Cost)	$45,320	$39,275
Mark-on This Week (% of Original Retail)	33.1%	33.4%
Mark-on to Date (% of Original Retail)	32.4%	33.7%
Reductions for Week	0.3%	1.2%
Reductions to Date	1.5%	2.3%
Average Sales Check	$ 37.45	$42.80
Advertising for Week	0.27%	0.29%
Advertising to Date	0.31%	0.36%
Salesforce Salaries to Date	4.24%	5.78%

Seasonal plans were prepared for all the departments in the Fairview Company at the beginning of each six months' period, and the necessary modifications were made as circumstances warranted. The weekly statements, which had been used by the firm for over three years, were designed to guide the buyers in merchandising their departments and in determining what purchase allowances they should request from week to week. Although the buyers in the store were unrestricted as to the kind of merchandise to purchase, they were controlled as to amount by definite weekly purchase allowances worked out by the management in conference with the buyers. The allowances were based on past sales, condition of stock, and general trend of business in the locality. After a buyer had examined and signed his statement, he presented it personally to his merchandise manager.

At this time he was required to give an explanation of the figures and, if the condition of his department as shown by the statement was not satisfactory, to offer suggestions for improvement.

When the women's suit buyer received the statement shown in Exhibit 1, he realized that he would be called on for an explanation as to how he intended to improve the condition of his department. Two alternatives suggested themselves. The buyer either could attempt to move the merchandise by mark-downs, or he could maintain the existing prices and attempt to increase sales effort through more advertising.

2. TODMORDEN COMPANY (A)

DEPARTMENT STORE—SALES POLICIES

The Todmorden Company was a high-grade department store located in the shopping district of a large middle-western city. The store had been established for many years and possessed the confidence of its customers in the quality of its merchandise and the truthfulness of its advertisements. In an attempt to arrange promotional activities so that they would enhance the company's reputation, the officers had followed the policy of holding no store-wide sales events, except semiannual clearance sales in January and June, and only a few departmental sales events.[1]

[1] Dobbs & Company, operating five stores in New York, also followed a policy of holding no sales events. A brief description of its methods was given by F. S. Clark in an article entitled "'Gold Lace' Merchandising as Dobbs Does It":

"The purpose in opening the first Dobbs store, 20 or more years ago, was to supply a suitable retail setting for the very finest quality of Crofut & Knapp hats. There were to be no special sales. The lowest priced hat offered at that time was $5, which was high for those days. It was virtually a retail interpretation of the manufacturing policies that had been maintained; namely, of making and supplying only the best regardless of the cost, or of other considerations . . .

"Just as there are no special sales, so also is it a strictly enforced rule that a visitor to a Dobbs store shall never be urged to buy. Only the highest types of salespeople are employed. They are paid salaries commensurate with their ability, and a bonus based on the amount of sales they make. But this is no violation of the spirit of the regulation against urging patrons to buy. For it has been found that a thorough knowledge of merchandise and the use of indirect suggestion are not only the most fitting, but the most effective retail selling methods in dealing with a clientele such as Dobbs' . . .

"The usual attention devoted to sales appeal is quite ignored in the Dobbs displays. Merchandise in the Dobbs stores is regarded as something worthy of admiration because of its beauty, and perhaps also the pleasurableness of associations connected with its use. And, therefore, it is displayed, first of all, so that it may be admired. If a single scarf supplies just the right color element in a window—that is sufficient. That the use of a variety of colors and patterns might tend to stimulate sales, is ignored.

"Such policies do not pull in a stream of the accidentally interested, but they do build solid prestige, as has been amply testified by the steady growth of the Dobbs business. These policies have built prestige and have interested the kind of patronage, for instance, which has recently made such few demands for the $8 hat for men, which for many years was the lowest priced model, that in the Dobbs stores in New York this model is being discontinued, and the lowest priced model now stocked sells for $10. And while two years ago 75% of the sales of Dobbs agencies were of the models priced from $10 down, now the situation is reversed and 75% of sales are of models that sell for $10 or more."—*Chain Store Review*, January, 1930, pages 16–18.

The company sold women's, misses', and children's apparel, china and glassware, gifts, linens, blankets, draperies, luggage, toys, and fabrics of all sorts. In 1929 its total sales amounted to approximately $7,000,000. In that year it obtained a gross margin of 30.65% and cash discounts of 4.85% of sales. It turned its stock at the rate of 3.06 times for the year. Mark-downs amounted to 7.9% of sales, and total expense was approximately 27.55%. The company's expenditure for advertising in 1929 amounted to 2.86% of sales.

In the opinion of the executives, continual advertising of sales events tended to make a customer think of price rather than of quality or style. The executives believed, furthermore, that it was impossible for all the store's buyers simultaneously to find merchandise of the proper quality at prices lower than usually prevailed. Even when an annual sale was scheduled in only one department, it was difficult for the buyer to find the required merchandise at the same time each year.

The general manager thought that it was more important for the company to direct its promotional efforts to building up goodwill than to try to effect an immediate increase in sales volume. In planning the operations in their departments, the buyers were expected to bear in mind the effect on the store's future position. Department managers were not required to secure on a given date a sales volume equal to, or larger than, that secured on the corresponding date in the previous year. Even a decrease in the sales of a department for a whole season was not considered proof that the department was being operated inefficiently.

Although the company had limited its sales events, it attempted to make the semiannual clearance sales especially attractive by offering in a number of departments new merchandise at prices substantially below those regularly in effect. The

executives did not require that these specials be offered in every department, and in fact some departments did not take part in a clearance sale; for instance, the toy department usually did not participate. At other times of the year, when a buyer found a bargain in merchandise similar to that regularly carried, he would purchase it and offer a special sale. These sales were not held regularly and were not advertised in a spectacular way. The executives believed, however, that such sales, used in moderation, attracted new customers to the store, helped to retain the goodwill of the store's regular customers, and stimulated the salespeople. The company attempted to maintain its usual mark-up on sale items, but in some cases it was necessary to lower the mark-up in order to offer merchandise at a sufficiently attractive price.

3. HANOVER COMPANY

GROCERY CHAIN—SALES POLICIES

In 1928 the Hanover Company obtained a gross margin of 22.5% on its $100,000,000 net sales of groceries, meats, and vegetables. Expenses of operation were 20% of sales, and net profit was 2.5% of sales. The average gross margin on meats was 25%; on groceries 19%; and on vegetables 30%. The original mark-up on vegetables averaged 35% of selling prices, but mark-downs and shrinkages were unavoidable. Although the percentage of operating expense chargeable to meats and vegetables was higher than that for groceries, the net profit figures for those items also were larger; for groceries alone, net profit averaged no more than 2% of sales. The gross margins obtained on specific grocery items at the company's customary prices varied from 40% to 15%; on groceries sold at special prices, margins were frequently as low as 7%.

The company's central office was located in a city of more than 1,000,000 population. Within 30 miles of that city the company operated 1,200 stores. Another 1,200 Hanover stores were distributed throughout several surrounding states, ordinarily in towns of 10,000 or more population. In addition to groceries, all the Hanover stores sold dairy products, including milk, butter, eggs, and cheese, as well as citrous fruits, and vegetables that did not deteriorate rapidly. One hundred and forty of the stores,

classed as markets, also sold meats and more nearly complete lines of fruits and vegetables. Most of these markets were located in or near the company's home city. Of the company's total sales, groceries and dairy products represented approximately 65%, meats 20%, and vegetables 15%. In a typical market, meats and vegetables together accounted for 60% of total sales, while groceries and dairy products accounted for the remaining 40%. For groceries and vegetables the company estimated that the average sale per customer ranged from 40 cents to 75 cents, and that for meats the average unit sale was about $1.50. The Hanover Company's records did not show sales by specific commodities or sales at special prices, but the company knew that a substantial portion of its sales were made at prices allowing only narrow margins. In the spring of 1929, therefore, the company's operating committee, composed of the buyers, the sales manager, the advertising manager, and other operating officials, considered whether more effective means might be applied to the promotion of the higher-margin merchandise.

The Hanover stores did not extend credit or provide delivery service. The company deemed price appeal to be essential in securing consumer patronage for chain stores and hence endeavored never to be undersold by local competitors. Groceries were charged from the warehouses to the stores at retail prices, and the store managers were held responsible thereafter either for the goods themselves or for the proceeds from their sale. Because rapid turnover was essential in the case of meats and vegetables, the managers of the meat and vegetable departments were allowed more freedom in controlling their departments than were the managers of the grocery departments.

The Hanover Company sold approximately 120 different manufacturers' brands of grocery products. Aside from unpackaged vegetables and a few bulk products, the company carried about 600 items, differing in sizes and brands, of which the Hanover Company's own brands represented 30%, advertised manufacturers' brands 60%, and unadvertised manufacturers' brands 10%. Prices of the Hanover brands of goods ordinarily were lower than those of comparable brands of manufacturers' goods despite the fact that the gross margins of Hanover goods were somewhat higher. The company, because of its large purchases, was able to buy goods for its private brands at low prices, sometimes taking the entire output of a small producer.

It also was able frequently to avoid the payment of brokerage charges on goods so secured. Some of its privately branded products, notably bread, were manufactured by the company itself.

The company's selling organization included a sales manager, 4 district managers, 20 supervisors, and 120 superintendents, together with the managers of the 2,400 stores and the managers of the meat and vegetable departments in the 140 markets. The district managers and supervisors were paid straight salaries. Compensation for each superintendent was based on a fixed salary to which was added, at the end of the year, a bonus based on the sales and average percentage of gross margin obtained by the stores under his supervision. Payment to store managers, which averaged approximately $47.50 a week, was based on a salary plus a percentage of sales. The same basis was used in paying the managers of the meat and vegetable departments in the markets, but their weekly compensation, on account of their relative scarcity and greater responsibility, was somewhat larger.

The four district managers met each Monday with the sales manager at the central office and discussed plans for the following week. These plans were communicated to the supervisors, by them to the superintendents, and thence to the store managers. The store managers were responsible for maintaining the volume of sales in their stores and also, indirectly, through pushing the sale of high-margin items specified by the central office, for maintaining satisfactory gross margin percentages. They remitted to specified banks the proceeds of each day's sales and furnished weekly standard accounting statements for the records of the central office. In each of the company's markets, the manager of the grocery department and the manager of the meat and vegetable departments acted independently, and coordination was secured only through the superintendent in charge.

Superintendents were the closest link between the central office and the store managers. Besides being generally responsible for the sales and gross margins of their stores, they were expected to supervise closely the activities of the store managers. The frequency of their visits to each store varied from once a day in urban territory to once a week in some of the outlying districts. The superintendents were expected to see that the stores' displays accorded with the company's uniform instructions, to guard against excessive or depreciated stocks, to approve and collect

the weekly accounting statements of the store managers, and to take a physical inventory of each store on an average of once in six weeks.

Additional contact was secured with store managers through weekly letters sent directly from the central office. These letters were ordinarily distributed on Friday and applied to the following week, but under special circumstances additional letters were sent out on other days. A typical letter sent out in the spring of 1929 contained the information and enclosures which the following outline indicates.

I. Accounting forms for reporting credits and charges to the store account.
   (a) Price reductions on weekly specials.
   (b) Current price increases and reductions—not weekly specials.
   (c) Price increases announced between Friday letters.
   (d) Price reductions on quantity sales of specified items.
   (e) Credits to store account for loss of reusable bags in bag sales of potatoes, sugar, etc.
   (f) Price reductions on deteriorated merchandise.

II. General information.
   (a) Announcement of weekly specials to start two weeks from the following Monday.
   (b) Counter display arrangement featuring weekly specials for the following week.
   (c) Instructions to examine certain items in stock to be returned for credit in case of deterioration.
   (d) Instructions to promote the sale of certain items, such as
      1. Nuts which were liable to deteriorate if held into the summer months.
      2. Codfish in cans or packages, the consumption of which declined during the summer.
      3. Slow-moving items which were overstocked or were being discontinued.
   (e) Statement of products on which the Hanover stores were considered to possess superior quality at regular prices, the sale of which should be promoted.
   (f) Notice to cooperate with special promotional plans of manufacturers of specific items—either new brands being introduced, or old brands for which a special campaign was being conducted.
   (g) List of three or four items on which especially large margins were secured, and sales of which were to be promoted.
   (h) Detailed information on certain of the regular weekly specials.

The Hanover Company expended for advertising in 1928 a total of $500,000, or 0.5% of total sales. The advertising expense for meats and vegetables alone was approximately 0.75% of their sales. In 1926, with sales of $60,000,000, the company had expended $100,000, or 0.17% of sales. The company was convinced, however, that the increase was in accordance with the general trend in chain grocery store advertising.

Eighty per cent of the company's total advertising budget was used for newspaper advertising. In the company's opinion newspapers were the best medium for chain grocery store advertis-

ing, both because the manufacturers of grocery products approved of their use and because their timeliness satisfied the company's requirements in the promotion of special sales. The other 20% of the advertising appropriation was used mainly for window posters and handbills; the latter usually were distributed only over the counters of the stores because of the unfavorable attitude of the public toward the distribution of handbills from house to house. Ordinarily four window posters, each naming one of the weekly specials together with its price, were prepared for each week; the handbills also listed the weekly specials offered in the Hanover stores.

Sales in the Hanover stores were small on Monday and Tuesday; business increased on Wednesday and Thursday; and approximately 50% of the week's sales were made on Friday and Saturday. The efforts of chain stores in general to stimulate buying early in the week apparently had proved unsuccessful. The Hanover Company recognized these consumer buying habits in scheduling its newspaper advertisements, which appeared twice each week, on Tuesday and on Friday, in the city in which the company was located. In the outlying portions of the company's territory, insertions ordinarily were made on Friday only, although the day was varied in some cities to accord with the pay days established by dominant manufacturing establishments.

Each week approximately 12 products were featured at cut prices in the company's advertising. The articles for these special weekly sales were selected and priced by the operating committee six weeks in advance, after consideration of their rate of sale, judged by records of shipments from the warehouse, and of their cost and mark-down records. Until 1928, specials had been selected only three weeks in advance. The company had lengthened the interval because of the growing number and dispersion of its stores and the time required to secure commodities from more distant sources, such as California. It was essential that the products to be featured in a sale should be in the warehouse two weeks prior to the sale in order that store managers' requisitions might be filled.

Of the weekly specials, two or three, termed "headliners," were selected either from fast-selling nationally known brands, such as Campbell's Soup, Kirkman's Soap, and Quaker Oats, or from universally used staple products such as sugar, lard, and flour. The company aimed by these offers to attract consumers to the

stores, trusting that they then would purchase goods in addition to the specials which had interested them. Two or three of the featured items ordinarily were new brands without extensive consumer following or products with a low rate of stock-turn but with relatively high gross margins. The remainder were items of general use at prices which had been reduced relatively little. In the Friday advertising, as an additional stimulus to the large sales which consistently were made at the end of the week, the company added two or three attractive leaders, and listed in small type ten or twelve items to be sold at customary chain prices, ordinarily suggestions of seasonal interest to consumers.

In the company's advertising its private brands were represented but never were allowed to dominate the list of specials. During the course of a year, most of the company's private brand products were advertised from one to eight times. When one brand of a product was featured at a reduced price, no other brand of the same product was advertised.

The items included in a Tuesday advertisement appearing in the spring of 1929, together with their gross margins at the prices quoted, were as shown in Exhibit 1.

EXHIBIT 1

HANOVER COMPANY

Products Featured in an Advertisement and Gross Margins Obtained

Product	Gross Margin at Price Quoted
Baked Beans—Manufacturer's Brand Exclusive to Hanover Company in Its Territory (10% Mark-down from Customary Price)	13%
Peanut Butter—Bulk, Manufactured by Hanover Company	20
Salmon—Canned	7
Prepared Mustard—Popular Brand	18
Mild Cheese—Bulk	20
Molasses—Canned, Hanover Brand	20
Rice—Packaged	7
Washing Compound—New Brand, Special Introductory Discount Provided by Manufacturer	25
Deviled Meat—Canned, Popular Brand	20
Macaroons—Bulk	23
Pineapple—Canned, Either Manufacturer's or Hanover Brand at Same Price, Hanover Brand	23
Manufacturer's Brand	21
Chocolate Dessert	20
Prepared Malted Milk Drink	25

The Friday advertisement of the same week added to this list of specials sugar and lard at margins of 8% and 11% respectively.

Store managers and clerks were instructed not to attempt the substitution of other brands for those requested by customers. The managers and clerks were permitted to suggest to customers the purchase of a limited number of products not requested and to use their judgment in choosing brands with which to fill orders when no brands were specified.

In making suggestions to consumers the managers and clerks were likely to suggest items which the company was selling at especially attractive prices. The company's central organization made no effort to encourage the managers to seek to maintain the volume of sales on brands which were not featured as weekly specials. The benefit of special discounts received from manufacturers, furthermore, was given to consumers either in whole or in part in the form of reduced prices. This practice was followed not only because it tended to increase the company's sales on such products but also because it often was followed by competitors who received the same discounts. Although the company did not maintain records of sales of products which it advertised or of total sales of specific products and brands, it had concluded that the large volume of sales at low margins steadily operated to reduce its percentage of profit.

Little was done by the company to promote the sale of items with high gross margins. It did, however, make it a policy not to repeat the offer of a particular cut-price leader more than four or five times a year. More frequent repetition was thought likely to lead consumers to buy large quantities during sales and to repurchase only on the reappearance of the low price offers. The company was unable, of course, to prevent customers from shopping among competing stores to obtain the advantage of the special price offers of each. In any given locality, the same brands were featured much oftener by the various chain stores than the Hanover Company considered desirable. One competitor, for instance, in the spring of 1929, had featured a popular brand of baked beans three times within eight weeks.

The sale of items with low gross margins was in some measure counteracted also by the practice of filling orders with Hanover brands when no specific brands were requested by the customers and when no competing brands were being offered at special prices. On manufacturers' brands carried exclusively by

the Hanover Company in its territory, moreover, it was possible to secure relatively high gross margins, and the sale of these items also tended to improve the company's net profit percentage. The company, however, did not always take the possible higher margin on such products, but instead sometimes sought to stimulate their sale through special low prices.

In addition to these passive methods of improving its net profit percentage, the company under various circumstances actively promoted the sale of products on which it received a high gross margin or for which it received special allowances from the manufacturers. The company, for instance, sometimes helped manufacturers introduce new products on which its gross margin was high. An example of such a product, in 1928, was Ready Cocoa, a prepared chocolate beverage. Manufacture of Ready Cocoa had been started less than a year previously; the product had not been sold before in the territory of the Hanover Company and was not advertised. The manufacturer gave the Hanover Company a case of 24 one-half pound cans for each store as a means of introducing the product both to the company and to its customers. In addition, the manufacturer paid the company a flat sum of 50 cents a store, or a total of $1,200, for its work in advertising and promoting the sale of the goods. The manufacturer, furthermore, agreed that the Hanover Company should sell the product in its territory on an exclusive basis for a stated period. The Hanover Company estimated that the free cases cost the manufacturer approximately $2 each, or a total of $4,800.

In return the Hanover Company agreed to exercise all its promotional facilities for a period of two weeks in an effort to popularize Ready Cocoa. It also agreed to stock the product subsequently providing the promotional efforts were successful. During the two-week period the Hanover Company placed Ready Cocoa prominently on display in its stores and featured it as a special in store posters and handbills and in its newspaper advertising. Through the regular weekly letters, furthermore, the company instructed its store managers to suggest the product to customers for purchase. At the end of the promotional period the company's records of managers' requisitions on the warehouse showed that the product had found sufficient favor with consumers to be retained in stock. Thereafter no more free goods were received from the manufacturer, but the cash payment for advertising was repeated twice during 1928, when the company repeated its promotional efforts.

In addition to devoting special promotional efforts to new products introduced by manufacturers, the company from time to time, in cooperation with manufacturers, featured products with which the public already was familiar. Under such circumstances, the company provided display, advertising, and the cooperation of the store managers. Often, on fast-selling brands, the products were offered at reduced prices. The manufacturers paid for the company's services, in the form of discounts from the bills for the company's purchases, a sum ranging from $1 a store to as high as $10,000 in total. Any part of the manufacturer's allowance not used by the Hanover Company for advertising the items to be promoted was carried directly to net profit, rather than being used to offset the narrowing of gross margins occasioned by the special price offers. Special promotion for any one product was never repeated oftener than four or five times a year.

Sales contests were another means of improving the gross margin figures. Two types of contests were employed by the Hanover Company, one under the control of the superintendents, and the other under the control of the central office. The goal of both types of contests was the largest total sales of specific items, and through the selection of those items the company was able to encourage the sale of high-margin goods. In one type of sales contest, each superintendent selected from the list of weekly specials, as the basis for the contest, not more than one item in any week. From the products listed in Exhibit 1, for example, most of the superintendents had chosen the Hanover brand of canned pineapple, which, after a reduction in price from 28 cents to 27 cents, had a gross margin of 23%. A small prize such as a box of cigars was given by each superintendent, at his own expense, to the store manager whose store had the largest sales volume of the specified item in the superintendent's district.

The use of these contests, their frequency, and all other matters relating to them were entirely discretionary with the superintendents, and some superintendents did not use the contests at all. In general, however, where the contests had been used the results had proved satisfactory.

The contests conducted by the central office were of less frequent occurrence and were arranged on a different basis. About every three months, identical prizes were offered to the superintendents and store managers in each of the four districts for the best records in the sale of a privately branded item specified by the Hanover Company's sales manager. The first prizes in each district were usually $100 for the superintendent whose stores made the best record and $50 or $75 for the manager of the best individual store. Additional smaller prizes were added to retain the interest of the superintendents and store managers as a whole. Good results had been obtained from this type of competition also.

At the meeting of the operating committee at which the possibility of increasing the company's sales of the higher-margin products was discussed, it was the consensus of opinion that if there were any additional practicable methods of achieving that end they should be adopted. The committee realized, however, that it frequently was difficult to decide whether the promotion of a specific brand, even though it had a high gross margin, was advantageous. A rapid rate of stock-turn resulting from consumer preference for a low-margin product often acted to counterbalance the unfavorable gross margin. Baked beans were an instance. The company sold four manufacturers' brands of beans in addition to its own. At the regular prices at which these brands were sold in the Hanover stores, the maximum variation in gross margin was about 3%. The brand which carried the lowest gross margin, however, was well known in the territory and sold twice as rapidly as any of the others. Competition among the chain grocery companies in the territory had forced the gross margin percentage on baked beans down eight points within a few years.

The same difficulty obtained in the promotion of specific types of grocery products. Spices, for instance, provided relatively high margins, but the volume of sales in dollars was small. The company considered that its stores were compelled to stock complete lines of products within the range of their customers' requirements and that specialization in particular groups of products was out of the question. Although the Hanover Company attempted to stimulate as far as possible the sale of meats and vegetables in its markets and the sale of higher-price goods in the stores in high income districts, it recognized the limitations to these efforts in the facts that its markets numbered only 140 and that the stores in the high income districts were far in the minority.

The company, furthermore, considered itself unable to promote many products during the same week. It hesitated to risk the

loss of the goodwill of its customers through encouraging its store managers to make numerous suggestions. The salespeople in the stores, furthermore, did not have time to talk long with any one customer and could not be expected to remember more than a few suggestions. It was necessary that the salespeople be informed specifically of each product to be promoted, because from the store records they knew only the retail prices and not the gross margins.

4. ELBRIDGE COMPANY

DEPARTMENT STORE—MONTHLY CLEARANCE SALES

The department store of the Elbridge Company regularly had held store-wide month-end clearance sales, but in the spring of 1929 the question was raised whether these sales should be discontinued and some other means of clearing out slow-moving stocks adopted. A clearance sale was held at the end of each month unless, as occasionally happened, an anniversary or other special sales event occurred at about the same time. These special sales extended over several days or a week, while the clearance sales were for one day only.

Annual sales of the Elbridge Company were about $20,000,000. During 1928 the store's gross margin amounted to about 33.7%, including cash discounts obtained of 3.13%. Total expenses were 33.55%. The rate of stock-turn was 4.34 times a year, and mark-downs were 6.03% of net sales.

The Elbridge Company recognized that it was impossible for any buyer to select merchandise so shrewdly that every article from every purchase could be sold quickly. Nor was it possible to prevent many articles from becoming soiled or shopworn. Rather than hold old or shopworn merchandise until it finally was sold at the original prices, the management of the Elbridge Company preferred to dispose of it with reasonable promptness. The management believed that the best way to accomplish this task was to reduce the prices of slow-moving and of shopworn merchandise, and set apart one day each month on which to display and advertise such goods especially. The company recognized, however, that it possibly could sell these articles during the month by setting aside a bargain counter in each

department or by merely taking mark-downs on the articles and selling them in the usual way.

The store estimated that on the average at these month-end clearances about 50% of the merchandise offered was sold. Merchandise that was not sold was not marked up again; but it was taken off display and little or no effort was made to sell it until the next clearance sale, when an additional mark-down might be taken if the buyer believed it to be necessary.

On the day of a clearance sale regular merchandise usually was removed from display, and the marked down merchandise was placed on the counters and tables. In order to heighten the bargain appeal of these sales, the management had adopted a policy of allowing a department to use only 25% of its monthly mark-down quota before the month-end sale. The remaining 75% was available for this special sale, although the department was not required to take it. In all advertising of the merchandise, in newspaper copy as well as in department displays, both the original price and the mark-down price of the merchandise were stated. No mail, telephone, or C. O. D. orders were taken for items which were on sale, and no exchanges or returns of such merchandise were allowed. Customers were allowed to charge merchandise to their accounts as usual, however; and since the sales occurred near the end of the month, merchandise purchased at a clearance sale was entered on customers' accounts for the following month.

The following instances were typical of the merchandise offered at a month-end clearance sale. In the yard goods department, 5,000 yards of silk, woolen, and wash fabric remnants were offered at from one-third to one-half the regular prices. These remnants, which were the ends of bolts, varied in length, but were too short to remain on sale regularly and hence had been set aside to be cleared out at the month-end sale. For the linen department, the buyer had purchased 1,750 50″ by 50″ linen tablecloths in Europe the previous year. These tablecloths, received in September, had been priced at $2.59 each. By the following April 75 pieces were left, but by that time the popular fashion of tablecloths had changed to a 50″ by 70″ cloth. Because there had been a change in fashion, and because the cloths were beginning to be slightly soiled, the buyer cut the price to $2 for the April clearance sale. In another case he had only one remaining from a number of fancy tablecloths. These cloths had been sold at $16.95,

but he offered the last one for $12.95, in the belief that it was not desirable to hold one tablecloth of this type in the department, since a customer might see the cloth and ask for a similar cloth in a different color or type of design. In such an event, the buyer believed that the one article would do more harm to the department, by suggesting merchandise that was not carried, than would the loss taken through the mark-down.

When a department buyer had no merchandise which he especially wished to dispose of at a reduced price, the store encouraged him to go into the market and purchase job lots of merchandise for the sale. While this policy was not an official requirement of the store, a buyer who did not purchase such merchandise in order to take advantage of the store's advertising for the day, as a means of offering a special value in his department, was considered lacking in energy. Merchandise purchased especially for a sale was sold in the same way as the regular mark-down merchandise, except that no previous price was stated. All the merchandise which was marked down carried special mark-down tickets in addition to the original price tickets. Specially purchased merchandise bore but one ticket. The store estimated that in spite of the reduced prices the sales volume on the day of a clearance sale was about 10% greater than the sales volume of a typical day.

Did the company follow sound policies in holding its monthly clearance sales?

5. WENTWORTH COMPANY

SPECIALTY JEWELRY STORE—DISPOSAL OF SLOW-SELLING MERCHANDISE

The Wentworth Company, a retail jewelry store with annual sales of $1,500,000, was located in a large middle-western city. Only merchandise of the highest grade was carried. The company had 13 selling departments, the largest of which, precious stones, accounted for 30% of the company's annual sales. Among the other departments were jewelry, leather goods, hollow silverware, flat silverware, plated silverware, novelties, watches, and clocks. Each department was under the direction of a manager. In March, 1929, the company was experiencing difficulty in finding suitable methods of disposing of slow-moving merchandise. The company's rate of stock-turn for 1928 had been 0.99 times.

Slow-selling stocks usually resulted from overbuying or from inaccurate forecasts of the styles that were to be popular. The style changes in merchandise sold by the Wentworth Company involved variations in material, design, color, or size. For instance, platinum might supersede gold; plain designs might be used in place of ornate; blue stones might supersede green; or narrow diamond bracelets replace wide ones. Customers of the Wentworth Company often desired articles with new and different characteristics. Merchandise, however, was not regarded by customers as acceptable merely because of its novelty; the company believed that beauty always was an important element in style goods as well as in staple goods.

While executives of the company realized that overstocks were due mainly to buying mistakes, they did not know how to eliminate this cause. Steps had been taken to educate the company's buyers so that they would buy more intelligently. For instance, the importance of style was stressed; buyers were instructed to buy merchandise on its own merits and not because of friendship with a particular salesman; the need for careful selection was pointed out; and buyers were warned of the dangers of buying in too large quantities. Whenever possible, furthermore, buyers were expected to secure an exchange privilege on merchandise purchased. Under an exchange right, a manufacturer agreed to take back merchandise that the retailer did not sell within six months, and to send other merchandise in its place. Most of the manufacturers who were willing to grant the exchange privilege required that when the company returned merchandise it should purchase at the same time merchandise of three times the value of the merchandise returned. The Wentworth Company also purchased some merchandise on memorandum; that is, the manufacturer retained the ownership of the merchandise.

The problems of disposing of excess or unsalable merchandise were not confined to any one department. In some departments, however, old merchandise had relatively high salvage value. In the precious stones department, for instance, the stones could be used in other pieces, and in the goldware department the material could be melted and sold as metal. In other departments, the salvage value of old articles was negligible.

The Wentworth Company did not wish to hold publicly advertised clearance sales for the purpose of disposing of old merchandise. Sales of this character, the executives believed, would cheapen the store in the eyes of its customers. It was the treasurer's opinion, furthermore, that the company's regular customers would not be interested in a clearance sale of merchandise that was not of the latest style. The only persons who might be attracted by clearance sales would be "bargain hunters," but these people were not desired as customers. In an effort to sell some of its old merchandise, the company had included, with the statements sent out to 3,000 charge customers in February, circulars which stated that the company was offering merchandise at reduced prices for a few days. During the five days of this sale about one-third of the merchandise, which had been selected from the stocks of all departments in the store, had been sold. The merchandise remaining was the poorest of the lot that had been offered.

Shortly before, the company had attempted to sell approximately two dozen slow-moving cigarette holders, ranging in price from $8.50 to $12, by inserting in the local *Shopping News* an advertisement, two inches by three inches in size, stating that the holders would be on sale for one day at a reduced price of $6. Not a single inquiry resulted from this advertisement. Two weeks previously an advertisement of similar size, describing a silver letter opener at a special price of $1, had resulted in sales of 36 pieces. This merchandise, however, also was selling well at its regular price of $1.25. The treasurer did not think that advertising in *Shopping News* would move slow-selling merchandise. He believed that most of the merchandise carried by the company, even at reduced prices, was beyond the means of the majority of the readers of this publication. The company's advertising policy was directed primarily toward building prestige. In line with this policy, advertising expenses, which were approximately 6% of sales in 1928, were not allocated directly to departments but were considered as overhead expenses and were apportioned on the basis of sales. The company did not wish to use its regular newspaper advertising space for clearance sale purposes.

Within the store, the company did not use display cards which would call a customer's attention to marked-down merchandise. Articles which had been reduced in selling price either were displayed with merchandise which carried its original selling price or were kept in drawers beneath the display cases. It was necessary, therefore, for salesmen to display the marked-down merchandise to customers who might purchase it. The salesmen, however, had a tendency to disregard old merchandise in favor of new. An attempt had been made to arouse the salesmen's interest in old merchandise by offering a premium of 5% on sales of marked-down merchandise. This plan had not been satisfactory. In spite of the premium, most of the salesmen had continued to show a preference for selling new merchandise; the other salesmen had directed all their efforts toward selling the premium merchandise with the result, one executive believed, that the store's reputation had been injured by these efforts. Since the company was among the highest-class firms in the city, it had to maintain prestige leadership; a false impression of the store from a prestige standpoint apparently had been given customers by the efforts of the salesmen to sell the old merchandise which had carried premiums.

In its accounting, the company used the cost audit system, and as a result the buyers usually thought in terms of cost and of the amount of profit on each article. Although the buyers had been encouraged to reduce the selling prices of slow-moving merchandise, they frequently had been reluctant to do so, because of unwillingness to reduce the margin secured on each article.

The company did not keep any records of mark-downs taken during the year, but the treasurer estimated that these mark-downs had amounted to $6,000 at retail during 1928. The company did not have a standard practice for price ticketing merchandise on which the selling price had been reduced. Sometimes the same price ticket was used by crossing out the old price and inserting the new. At other times, a new price ticket, carrying only the new price, was attached to the merchandise. The price tickets for merchandise which had been revalued at cost always were removed and new tickets, stating the revalued cost in code and the new selling price, were attached.

When the annual physical inventory was taken, buyers were expected to mark down, subject to the approval of the general manager, all the merchandise which in their opinion had a market value lower than the original cost. Physical inventories usually were taken by salesmen in the departments. Five years previously, the annual inventory in the jewelry department had differed

from the book inventory figure by several thousand dollars. In an attempt to discover the cause of this discrepancy, the treasurer personally had inventoried the stock. He uncovered old merchandise valued at several thousands of dollars which had been overlooked, and which was so old that it was worth only a fraction of the original cost, at which it was carried.

The company had at various times sold old merchandise to other stores or to brokers who represented other jewelry stores. The price received for this merchandise always was much below the original cost of the articles. For instance, in March, 1929, the company had in stock about 12 fraternal rings which had cost $150; a broker offered to purchase these rings for $25. This offer was typical of offers received for old merchandise.

In the silverware departments records were kept of the patterns purchased by customers. From time to time the company was notified by manufacturers that certain patterns were to be discontinued. In such instances, the company notified the customers who had purchased those patterns, and suggested that they purchase additional pieces immediately, since it was usually necessary to pay much higher prices for patterns after they had been discontinued.

In March, 1929, the problem of disposing of old merchandise was particularly acute in the jewelry department. After the annual physical inventory of the jewelry stock was taken in February, 1929, the retail price of some merchandise which had been in stock from one to five years and which had an original cost valuation of $5,000 was finally marked down 30% to $4,000. The treasurer estimated that the original retail value of this merchandise had been almost $9,000. The treasurer wished to liquidate this old stock as quickly as possible but was uncertain as to the best method of doing so. Many different articles were included in the lot marked down. The total stock of the jewelry department, which was valued at $55,000 at cost, comprised approximately 2,800 different items.

The leather department also presented a problem in March, 1929. Out of a lot of 36 bags that had been purchased abroad 2 years before, this department still had in stock 16 bags. These bags originally had been retailed at from $215 to $400, but in March, 1929, they were priced at from $150 to $250. The cost of these bags ranged from $90 to $150. The treasurer expected that occasional sales of the bags might be made during the year,

but he knew that considerable time would be required to dispose of all of them. He believed that the money tied up in these bags could be used to better advantage if it were invested in other merchandise that would sell more rapidly.

What means should the Wentworth Company have adopted for disposing of slow-selling merchandise?

6. TAYPORT COMPANY (A)

SHOE CHAIN—DISCONTINUANCE OF CLEARANCE SALES

In 1922 the Tayport Company, which operated a chain of 60 retail shoe stores in many large cities of the United States, established the single retail price of $6.80 for both its men's and its women's shoes. Sales were approximately $4,000,000 annually. At that time executives of the company decided that the company should not continue to hold semiannual clearance sales. One executive estimated that end sizes of shoes constituted 88% of the merchandise included in the clearance sales. The remainder of the merchandise consisted of shoes that were not of popular styles. By means of a comprehensive merchandise control system and a single-price policy, the company believed that the problem of end sizes and poor styles could be eliminated almost entirely and that the company then would not require clearance sales.

By 1928 sales were more than $7,000,000, of which about 75% were in men's shoes and 25% were in women's shoes. The company's merchandising experience during the period from 1922 to 1928 had been essentially as follows:

Prior to 1922 the Tayport Company had held semiannual clearance sales. In order to dispose of merchandise in the clearance sales, the company had taken drastic mark-downs, and in many cases had reduced prices below original cost. One executive estimated that on these sales the company had sustained an annual loss of $100,000, computed as the actual difference between the amount received from the sales of these shoes and the original cost of the shoes.

Because mark-downs in shoes were occasioned mainly by the accumulation of end sizes, the executives had decided to set up a system of controlling sizes which would enable the company

to keep its stocks in proper relationship to sales in respect to sizes.[1] In 1922, accordingly, a record by sizes of sales of 800,000 pairs of men's shoes was made. Since this record revealed that there were practically no sales in 9 of the 79 sizes which the company was carrying, it was decided to eliminate these slow-selling sizes. It was found also that 20 sizes accounted for approximately 76% of the 800,000 pairs sold, and that 39 sizes had yielded 90% of the total sales. These results were found for the combined sales of all stores; the proportions of sales by sizes varied slightly among the individual stores.

From 1922 to 1928 the company, by means of tabulating machines, kept records of sales by sizes. An analysis of the sales by sizes for men's shoes, from 1925 to 1928, showed that 76.7% of total sales of men's shoes were made in 19 sizes, 89.8% in 42 sizes, and 100% in 62 sizes. The company's stocks were apportioned closely in accordance with sales; that is, approximately 77% of its stocks were in 19 sizes, and 90% in 42 sizes. During the period from 1922 to 1928 the company reduced the number of styles in men's shoes from 1,000 to 100 by the process of eliminating closely similar styles and also slow-selling styles. The company had 80 styles in women's shoes.

In 1922 the company also instituted a policy of "three phase merchandising" for the control of styles and sizes. A style of shoe for which demand was expected to continue for at least three years was classified as a staple shoe. An expected demand of 18 months' duration placed a style in the semistaple class. If the demand for a style was expected to last only for a period of three months, the style was included in the seasonal class. The company carried 62 sizes in staple shoes, 42 sizes in semistaple shoes, and 19 sizes in seasonal shoes. Early in 1929, the average stock of a retail store of the company consisted of about 2,000 pairs of staple shoes, 2,500 pairs of semistaple shoes, and 500 pairs of seasonal shoes. Approximately 40% of the company's sales were of staple shoes, 50% of semistaple, and 10% of seasonal.

The company included shoes of a seasonal character in its stocks for several reasons. Shoes of this type had a high publicity value because they added a touch of newness to the company's stocks. The executives believed that the interest of customers could be retained only if new and different styles were added

[1] The term "size," employed in this case, includes both size and width; that is, 8A, 8B, 8C, and 9A are four different sizes.

constantly. Practically all the company's newspaper advertising and window displays were devoted to the seasonal styles. The seasonal class of shoes included the styles with which the company wished to experiment. Many of the staple and semistaple styles had had their inception as seasonal styles. Every new style was a careful reproduction of a high-price shoe of domestic or foreign manufacture. The company added about 30 new styles of men's shoes to its line each season, of which 20 were dropped during the same season. Only two or three new styles each season reached the stage of being classified as staple or semistaple shoes.

As soon as a style had been classified in one of the three groups, the company was able to set up a purchasing policy for that style. A staple shoe, it was believed, could be contracted for in advance up to three years' estimated requirements, and a semistaple shoe up to eighteen months' requirements. These advance purchase commitments enabled the company to secure substantially lower prices, because such orders made it possible for a manufacturer to set up his machines and keep them running for a long period. The cost of staple shoes averaged almost 50 cents a pair less than the average cost of semistaple shoes. Many of the seasonal shoes cost the company more than the retail price obtained. Only a small quantity of any seasonal style was purchased, usually between 250 and 500 pairs. In one instance the company had purchased only enough shoes of one style to enable it to show one pair in each store, while a stock was kept in the warehouse from which orders received by the stores were filled.

Prior to the beginning of each six months' period, executives of the company, on the basis of probable sales, estimated the stock requirements in pairs for the company as a whole and for each store. To the estimated sales, the executives applied the rate of stock-turn for the corresponding preceding season, in order to determine the average monthly stock for the coming season. In 1928, men's shoes were turned at the rate of 3.7 times for the year; and for women's shoes the stock-turn was 2.8 times. These figures did not include warehouse stocks. Warehouse stocks were turned 18.0 times. During January and July, stocks were planned to be 10% under the average monthly stocks for the season, and during April and October, when sales activity was the greatest, 10% above the average.

For each style of shoe sold by the company, a sample pair of shoes was kept in the warehouse. To each sample pair was

attached a tag on which the number of pairs sold during the season was entered. Inventories were taken semiannually, in the retail stores and in the warehouse, by sizes and styles. After the inventory had been taken and entries made on the tags, a committee of several of the company's executives judged each style with regard to five factors: (1) physical appearance—that is, whether the color had faded, the metal buckles tarnished, or the leather cracked; (2) age; (3) sales performance, as indicated on the ticket attached to the sample in the warehouse; (4) anticipated demand; and (5) the amount of stock on hand in sizes as revealed by the physical inventory. After an analysis on these five points, a style was classified in one of five groups. Group "A" included the styles for which a rate of stock-turn not lower than 1.5 times was expected in the coming season; group "B" included shoes that required a P.M. of 15 cents to move at a stock-turn rate of 1.5 times a season; in group "C" were shoes that required a P.M. of 25 cents; group "D" included shoes that required a 50-cent P.M.; and group "E" represented shoes that were to be withdrawn from stock.

The stock of men's and women's shoes in the Tayport Company, on January 1, 1929, in each group was as shown in Exhibit 1.

EXHIBIT 1

TAYPORT COMPANY

Number of Pairs of Men's and Women's Shoes in Stock by Groups, January 1, 1929

Group	Number of Pairs	
	Men's Shoes	Women's Shoes
A	213,000	89,700
B	12,480	15,800
C	5,400	8,100
D	4,400	6,900
E	1,600	4,500

In 1928 the withdrawals of men's shoes from the company's line, in pairs, were 0.1% of 1928 sales of men's shoes, and withdrawals of women's shoes were 2.0% of 1928 sales of women's shoes. Shoes withdrawn were sold to jobbers with the stipulation that the shoes were not to be resold in cities in which the Tayport Company had retail stores; the revenue obtained in 1928 from

sales of withdrawn styles was $22,000 less than the cost of the shoes.

An executive of the company estimated that P.M.'s paid during the spring season of 1929 would be approximately $6,000. Estimated sales for the 1929 spring season, for each group, were as shown in Exhibit 2.

EXHIBIT 2

TAYPORT COMPANY

Estimated Sales, in Pairs, of Men's and Women's Shoes by Groups, Spring Season, 1929

Group	Number of Pairs	
	Men's Shoes	Women's Shoes
A	390,000	140,000
B	7,900	5,700
C	3,200	2,700
D	2,300	2,700
E*	300	1,800

* Estimated sales before withdrawal from stock.

Executives expected that some of the shoes included in group "E" would be sold before withdrawal had been consummated.

The company had two distribution managers, one for men's shoes and the other for women's shoes; these distribution managers were responsible for stocks, shipments, and transfers of merchandise in the retail stores. On the basis of daily analyses of the store record books, the distribution managers shipped and transferred merchandise to the retail stores daily. Each store was in charge of a manager who supervised the salespersons, arranged window and store displays, made daily reports of sales to the central office, deposited cash receipts in a designated bank, and also sold merchandise. Auditors of the company visited each store several times a year to check accounts and merchandise. The sales slips, which were made out for each transaction, showing the style number and size of each pair of shoes sold, were sent daily to the central office of the company. Clerks in the central office punched a tabulating machine card for each sales slip, and also entered the sale in the record book for the particular store. The store record book provided a separate sheet for each style number. On the sheets of these books were entered, according to sizes, the sales, shipments, and transfers of merchandise.

When a style number was discontinued, the distribution managers began what was termed a "process of concentration." Concentration involved the transferring of the entire stock of the stores showing the least selling activity in the discontinued style to other stores having a better demand for that style. The process of concentration was continued until all the stock of the style was concentrated in one store or until it was decided to withdraw the style. At some time, either before the process of concentration was started or during the process, a P.M. was placed on the style. The final step was the withdrawal of a style.

7. BELLVANISE COMPANY

DEPARTMENT STORE—STORE-WIDE SALES EVENTS

The department store of the Bellvanise Company occupied a corner location in the shopping district of an eastern city. Approximately 80% of the $10,000,000 annual sales were made on a cash basis; trading stamps were given with all purchases.

After investigating the expenses and profits during 1924 for a monthly store-wide sales event, known as the M.M.[1] Sale, that had been featured by the Bellvanise Company for a period of years, executives of the company considered the advisability of discontinuing such sales. The M.M. Sale had been held on the middle Wednesday of every month, except January and July, for so long a period that many customers looked upon it as an institution. Its value was brought into question, however, as the result of a decline in the sales made. Instead of the usual increase of $10,000 over the normal daily sales of $30,000, the extra volume secured from these sales events in 1924 averaged but $5,000.

Practically all the merchandise offered at the M.M. Sale was specially purchased merchandise; the regular merchandise in the store was not marked down for this sale. As contrasted with a regular mark-up of 35%, the maximum that a buyer was allowed to place on merchandise purchased for the M.M. Sale was 20%. A substantial proportion of the merchandise was sold at mark-ups ranging from 10% to 16%. For instance, a piece of merchandise which was bought for $1 for the M.M. Sale

[1] Manufacturers' Mistakes.

would be sold for $1.11 or $1.19 rather than for the usual price of $1.55. The wages of extra salespeople for this event approximated 2% of the sales made, and additional advertising amounted to 3% of the sales. Commissions of 0.5% of sales were paid to the salespeople as an incentive for increasing volume. The returns of merchandise by customers commonly increased as a result of the M.M. Sale from a normal of 3.5% to 5%. From 70% to 80% of the merchandise placed on sale usually was sold; the remainder was marked up after the sale to the nearest price lines in the regular stocks of merchandise

It was found that the loss on the M.M. Sales for 1924 was $50,000. A record was kept of the merchandise placed on sale, and the cost of the merchandise sold was determined by means of a physical inventory taken after the sale. The gross margin was computed by deducting the cost of merchandise sold from total net sales, and the net profit or loss was determined by deducting from the gross margin all the expenses incurred for the sale. The decline in the patronage of these sales was attributed to the inability of the buyers to secure, at suitable prices, a sufficient number of special lots of merchandise. Manufacturers apparently had estimated the demand of retailers more accurately since 1920, with the result that special lots of such desirable merchandise as formerly had accumulated through overproduction were becoming more difficult to secure.

In addition to the M.M. Sales, an Anniversary Sale, which commemorated the founding of the store, was held for one week during March of each year. A Birthday Sale in the fall and a Stock-taking Sale in January and July of each year also were held for all the departments. The merchandise placed on sale for those events was from the regular stocks, a mark-up of 20% being used, instead of the normal mark-up of 35%. In addition, a sale considered as store-wide was held for 75% to 80% of the departments every week. As for the Stock-taking, Birthday, and Anniversary Sales, no special merchandise was purchased, and the same mark-up was used as in the case of those sales. No extra salespeople were hired for any of these events, but extra advertising amounted to 0.5% of the sales made. An increase of from $2,000 to $3,000 over the normal daily sales volume was obtained on the day of the weekly sale. Since no analysis had been made of any of these sales, other than the M.M. Sale, it was not known whether they were profitable.

Store-wide special sales were regarded by the buyers of the Bellvanise Company as necessary to the maintenance of a large volume of sales. The buyers, as well as some of the store executives, favored the retention of the existing policy because the rapid growth the store had achieved was attributed primarily to the policy of holding store-wide sales.[1] They were of the opinion that although the mark-up on merchandise offered during a sale was low the large volume compensated for the low margin, and that furthermore many of the people attracted to a special sales event came again to purchase the regular merchandise.

Should the Bellvanise Company have discontinued all store-wide sales?

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[1] In an address delivered before the fifth annual convention of the Controllers' Congress of the National Retail Dry Goods Association in June, 1924, Dr. Melvin T. Copeland spoke in part as follows: "As a matter of fact, what happens as the volume of sales increases? In the first place, a substantial increase in the volume of sales requires more floor space . . . In the second place, an increase in the volume of sales ordinarily necessitates the employment of a larger sales force . . . In the third place, as the volume of sales increases, the executives usually receive greater remuneration in recognition of their capability of handling a larger organization . . . For a large organization, in the fourth place, the methods of control become more elaborate. This is indicated by the figures on expenses for office salaries and for receiving, marking, and stockroom salaries. In the fifth place, as the volume of sales increases, the quantity of stock carried also increases, even though not quite in the same proportion. The investment in merchandise increases as the volume of sales increases, but at a slightly lower rate. For the larger volume of stocks, the insurance and other carrying charges are higher in dollars and cents and slightly less in percentage of sales for some of these items. The effect of the requirements for more floor space, more salespeople, more highly paid executives, more elaborate systems of control, and the carrying of heavy stocks, is to increase the expenses in dollars and cents, as the volume increases, so that the percentage of expense to sales remains at least practically constant. In order to attract a larger volume of business, more money is spent for advertising in the stores with a large volume of sales. For department stores with sales of less than $250,000 in 1922, for example, the advertising expense was 1.7% of the sales; for firms with sales of $10,000,000 and over, it was 3.2% of the sales. In addition to the employment of heavier advertising to increase the volume of sales, services also are added, including such incidentals as manicure parlors and rest rooms. Credit is extended more liberally, with greater losses from bad debts in dollars and cents and at least as high a ratio to sales as when sales were smaller. Delivery expenses also increase at least as fast as the volume of sales increases. For the reasons just stated, it seems to me logical to expect that the ratio of total expense to sales should at least remain constant as the volume increases, and it is not at all surprising that the ratio is somewhat higher with the larger volume of sales because of the necessity for more elaborate, complicated systems of control. The amount of supervision that can be exercised by a single individual is limited by human factors, and consequently more elaborate organization and heavier overhead expense tend to follow an increase in volume of sales, after a certain point is reached."

In another part of his address Dr. Copeland said: "In drawing these conclusions, it is not my intention to damn an increase in volume of sales; not by any means. Natural growth is healthy and it should be profitable. I do question seriously, however, the wisdom of the employment of extraordinary methods to force an increase in volume of sales, merely for the sake of volume."

8. NEWBURG COMPANY

DEPARTMENT STORE—STORE-WIDE SALES EVENT

The Newburg Company, a department store which sold medium-grade and high-grade merchandise, had annual sales amounting to approximately $15,000,000. About 49% of its sales were made on charge accounts and about 14% for payment upon delivery. Gross margin was approximately 30% of sales. In addition to clearance sales in January and July, the company usually held two store-wide sales each year, one early in the spring and one early in the fall; but in November, 1924, the sales promotion manager of the store suggested that a third store-wide sale be held during the first week in December.

Although most department stores had their Christmas merchandise and their extra salespeople on hand during the first week in December, many people did not begin shopping for Christmas needs until the second or third week of that month. The weekly sales of the Newburg Company for December, 1922, and December, 1923, were as shown in Exhibit 1.

EXHIBIT 1

NEWBURG COMPANY

Sales by Weeks during December, 1922, and December, 1923

Week	December, 1922	December, 1923
First	$517,100	$520,355
Second	679,500	661,700
Third	635,600	649,900
Fourth*	218,300	263,300

* Five days because of Christmas holiday.

The company's sales for the first 11 months of 1924 were as shown in Exhibit 2.

According to the suggested plan, if the company held a store-wide sale during the first week in December, it would try to establish that week as Newburg Week. In most departments of the store only one item would be featured. The featured articles would bear a mark-up of approximately 20%; any of these goods not sold during the week would remain on sale at the mark-down price. The planned mark-up on leader items during the spring

EXHIBIT 2

NEWBURG COMPANY

Monthly Sales—January through November, 1924

Month	Sales	Month	Sales
January	$1,277,000	July	$743,000
February	947,000	August	709,000
March	1,449,000	September	1,246,000
April	1,135,000	October	1,671,000
May	1,179,000	November	1,426,000
June	1,048,000		

nd the fall store-wide sales was 10%; the total mark-up in 1923 was 16.4% during the spring sale and 20% during the fall sale. During the 1923 spring and fall sales, 45% and 40%, respectively, of the total sales were of leader items. The company never had used comparative prices in any of its advertising.

It already was customary for the women's hosiery department and a number of other departments of the store to feature several items of merchandise during the first week of December. The buyer for the women's hosiery department, however, believed that his department would benefit more through a general store-wide sale than through the usual departmental promotion. With a store-wide sale it would be necessary for the hosiery department to offer only one special item, whereas ordinarily during the first week of December that department featured five or six items. The sales promotion manager believed that a store-wide sale would bring more people into the store than would departmental sales, and that, since in most departments only one item would be featured, relatively more merchandise bearing the full mark-up would be sold. If only one article were featured by a department, furthermore, a larger quantity of that merchandise would be required than if several items were featured; and consequently manufacturers might be more likely to grant price concessions. The sales promotion manager believed also that the advertising cost per department would be lower for the store-wide sale than for the usual departmental sales events.

In connection with the analysis of the proposed plan, the hosiery buyer stated that he could secure 6,000 pairs of openwork French lace stockings with clocks, which ordinarily cost $17.50 a dozen, for $13 a dozen with a 2% discount for payment in 10 days.

These stockings could be retailed at $1.75 a pair instead of at the usual price of $2.25; this would give a mark-up of about 38% instead of the planned mark-up on featured items of about 20%. The buyer estimated that $9,900 of the specially priced hosiery and $10,100 of other hosiery would be sold during the week of the suggested store-wide sale, whereas only about $8,000 of the featured hosiery and about $10,000 of the other hosiery would be sold during the usual departmental event. Total sales of the hosiery department had been $16,495 during the first week of December, 1923, and $11,370 during the first week of December, 1922.

The buyer for the silk and velvet department stated that, with store-wide sales promotion, total sales of $34,000 could be obtained by his department during the first week of December, 1924. He estimated that without a store-wide sale the total sales would amount to $32,000. During the first week of December, 1923, the sales for the department had been $30,640.

To illustrate his expectations as to the results of a store-wide sale, the sales promotion manager of the Newburg Company prepared daily sales quotas for the whole store for the first week in December, 1924. These quotas were as shown in Exhibit 3.

EXHIBIT 3

NEWBURG COMPANY

Daily Sales Quotas, December 1–6, 1924

Date	Sales Quota
December 1	$113,405
December 2	91,255
December 3	84,085
December 4	88,585
December 5	93,850
December 6	121,755
Total	$592,935

The company, to promote the Newburg Week sale, planned to insert a full-page advertisement in five Sunday newspapers, at a total cost of approximately $3,500, and in two daily newspapers, at a total cost of approximately $8,000. This amount represented an increase of nearly $1,000 over the newspaper advertising cost for the same period of the preceding year. The company planned also to send 100,000 copies of one of the Sunday newspaper advertisements to charge, cash, and nearby mail-order customers, and to a selected group of potential customers. The company

estimated that the cost of printing these 100,000 copies would be $590, that the postage would cost $2,000, and that the stationery would cost $400. The store regularly mailed copies of a full-page newspaper advertisement to its customers during the spring and fall store-wide sales.

The Newburg Company decided to hold the Newburg Week store-wide sale and proceeded with the event as planned. The advertising cost and the sales of the store as a whole for Newburg Week as compared with the first week of December, 1923, were as shown in Exhibit 4.

EXHIBIT 4

NEWBURG COMPANY

Total Store Sales and Advertising Costs for the First Week of December, 1923, and December, 1924

First Week of December, 1923			Newburg Week, December, 1924		
Date	Sales	Advertising Cost	Date	Sales	Advertising Cost
Monday, Dec. 3	$ 93,140	$ 3,687.56	Monday, Dec. 1	$100,550	$ 4,398.80
Dec. 4	81,085	1,231.68	Dec. 2	93,030	1,778.40
Dec. 5	64,710	1,297.80	Dec. 3	90,895	1,353.60
Dec. 6	82,655	1,107.50	Dec. 4	85,570	1,477.35
Dec. 7	87,490	1,176.95	Dec. 5	80,445	1,353.60
Dec. 8	111,275	2,124.60	Dec. 6	125,700	2,064.35
Total	$520,355	$10,626.09	Total	$576,190	$12,426.10*

* Exclusive of the cost of sending out 100,000 copies of a full-page Sunday newspaper advertisement.

A similar comparison of the sales and advertising costs for the hosiery department during Newburg Week and for the first week of December, 1923, was made, as shown in Exhibit 5. Sales were

EXHIBIT 5

NEWBURG COMPANY

Hosiery Department—Sales and Advertising Costs during the First Week of December, 1923, and December, 1924

First Week of December, 1923			Newburg Week, December, 1924		
Date	Gross Sales	Advertising Cost	Date	Gross Sales	Advertising Cost
Monday, Dec. 3	$ 2,745	$240.35	Monday, Dec. 1	$ 3,100	$ 67.41
Dec. 4	2,300	.....	Dec. 2	2,505	2.36
Dec. 5	2,020	139.36	Dec. 3	3,155	76.22
Dec. 6	2,735	.....	Dec. 4	2,415	2.70
Dec. 7	2,610	.....	Dec. 5	2,255	2.27
Dec. 8	4,085	62.31	Dec. 6	3,810	34.04
Total	$16,495	$442.02	Total	$17,240	$185.00

EXHIBIT 6

NEWBURG COMPANY

Sales of Principal Departments, including Sales of Featured Articles, during the First Week of December, 1924

Dept.	Articles*	Price	Units Sold	Total Sales "Newburg" Items	Total Sales All Items	Ratio of Sales of "Newburg" Items to Total Sales
1	Velvet—5 Yds	$ 15.50	525	$ 4,645.27	$ 28,295	16.4
2	Flannel	1.45	1,053	1,526.85	2,975	51.3
3	Velours	2.85	1,175	3,348.75	6,120	54.7
4	Prints	.95	536	899.20	1,750	51.4
5A	Luncheon Sets	4.90	128	2,081.90	11,530	18.1
5B	Pillow Cases	1.90	359	682.10	1,851	36.9
6	Handerchiefs	1.50	1,000	1,500.00	15,975	9.4
7	Bedspreads	7.75	338	2,619.50	7,945	33.0
10	Chiffon Scarfs	4.95	50	326.50	10,335	3.2
11	Tunics	16.75	64	1,341.80	6,995	19.2
12	Kid Gloves	1.35	3,926	5,300.10	11,285	47.0
13	Novelties	.50	3,288	1,644.00	3,985	41.3
14	Manicure Sets	2.25	407	915.75	4,995	18.3
15	Hosiery	1.75	4,872	8,526.00	17,240	49.5
16	Assorted Jewelry	.....	.....	3,442.00	12,320	27.9
17	Silk Bags	4.65	208	1,655.40	14,660	11.3
18	Boudoir Sets	22.50	216	6,265.80	15,785	39.7
19	Umbrellas	4.95	684	3,385.80	5,370	63.1
20	Gowns	22.50	171	3,847.50	37,035	10.4
21	Hats	6.75	102	688.50	3,975	17.3
23	Blouses	8.75	27	236.25	3,545	6.7
24	Pantalettes	5.95	309	4,181.95	20,705	20.2
25	Vests	1.95	168	327.60	8,305	3.9
28	Evening Wraps	59.50	35	2,057.50	13,610	19.5
29	Dresses	38.00	9	342.00	9,670	3.5
30	Misses' Dresses	29.75	28	833.00	4,195	19.9
31	Scarfs	45.00	10	450.00	16,350	2.8
32	Sweater Sets	5.95	102	606.90	6,905	8.8
33	Coats	49.50	16	792.00	4,065	19.5
34A	Sheep Lined Coats	8.45	456	3,853.20	6,595	58.4
34B	Bath Robes	2.95	327	964.65	3,070	31.4
36	Cheese and Cream Sets	3.75	46	300.00	5,155	5.8
37	Suits	39.50	54	4,453.00	7,935	56.1
38	Waffle Irons	12.50	41	1,402.30	11,665	12.0
39	Dolls	3.95	258	1,537.80	21,750	7.1
40	Socks	1.10	2,603	2,863.30	9,320	30.7
41	Boudoir Slippers	1.45	2,968	4,975.10	15,970	31.2
42A	Mirrors	10.00	154	1,540.00	8,065	19.1
42B	Tea Sets	13.50	40	540.00	4,060	13.3
43	Candlesticks	6.95	440	3,058.00	5,085	60.1
44A	Portieres	18.75	103	1,931.25	9,315	20.7
44C	Wicker Sets	157.50	14	2,205.00	2,350	93.8
46	Pillows	5.45	318	1,733.10	11,790	14.7
47A	Chairs	12.50	179	3,937.00	42,330	9.3
48A	Rugs	24.00	31	1,092.00	6,340	17.5
49	Suit Cases	10.95	128	1,401.60	5,250	26.7
57	Console Phonographs	74.50	10	745.00	2,180	34.2
59	Knitted Suits	5.95	20	119.00	450	26.4
60	Skirts	9.75	22	214.50	630	34.0
61	Robes	17.50	163	3,104.65	11,560	26.9
62	Sweater Sets	4.95	70	490.05	2,595	18.9
65	Aprons	1.25	275	343.75	4,535	7.6
71	Desk Sets	4.95	201	994.95	10,150	9.8
72	Men's Hats	2.95	62	182.90	290	63.1
73	Cotton Dresses	2.45	141	345.45	2,040	16.9
77	Coats	75.00	8	600.00	2,620	22.9
80	Children's Shoes	3.95	69	272.55	1,460	18.7
90	Men's Slippers	2.95	846	2,495.70	5,180	48.2
Grand Total				$112,765.72	$527,406	21.4

* Some departments had two or three featured articles; those named here are typical.

$745 larger and advertising costs $257 less for that department in Newburg Week than in the corresponding week in 1923.

An additional computation was made of the results of the sale showing the items featured during Newburg Week by the principal departments, the number of special items sold, the total departmental sales, and the ratio of sales of special items to total departmental sales, as shown in Exhibit 6.

During December, 1924, the gross sales of the Newburg Company were approximately $2,355,000, and the total expense for newspaper space was $30,500. The company's weekly sales during December, 1924, were as shown in Exhibit 7. The executives of the company knew that Newburg Week had been a dull period for the other department stores in the city.

EXHIBIT 7

NEWBURG COMPANY

Sales by Weeks during December, 1924

Week	Sales
December 1–6	$576,200
December 8–13	588,800
December 15–20	664,300
December 22–27	372,400
December 29–31	153,145

What conclusions should the management have drawn as to the success of the Newburg Week store-wide sale?

9. HANLIN KENELL COMPANY

DEPARTMENT STORE—COOPERATIVE SPECIAL SALES EVENT

The Hanlin Kenell Company operated a department store in Oskaloosa, a small city in the Middle West. The store drew its patronage not only from the city but from the surrounding farming districts. The company's sales volume of approximately $250,000 a year consisted primarily of medium-price merchandise. During the second week of April, 1921, the secretary of the Retail Committee of the Oskaloosa Chamber of Commerce presented for the endorsement of Mr. Hanlin, president and active manager of the Hanlin Kenell Company, a plan which the Committee had worked out to establish a "Monthly Sales Day" in the city. The plan had been approved by 35 of the leading merchants in

the city, but the Committee deemed it advisable to have at least 50 endorsements before proceeding with the arrangements.

The Sales Day plan had been prompted by a desire on the part of several merchants in the city to increase their business and to secure new customers. On the fourth Wednesday of each month all merchants were to offer two or three special bargains. Although the plan did not limit the number of stores participating in the sale, it required that the special article or group of articles offered by each store should be different from the offerings of the other stores. Prior to each Sales Day, intensive advertising was to be carried on. Cards announcing the date of the Sales Day and describing its chief characteristics were to be sent out by the Oskaloosa Chamber of Commerce to approximately 5,000 families living within a radius of 25 miles. In addition, double-page spreads were to be placed in the four Oskaloosa newspapers, two dailies and two weeklies. In order to assist in making the first Sales Day a success, these newspapers had agreed to mail, free of charge, approximately 2,800 copies to persons who were not regular subscribers.

The general regulations drawn up by the Committee were as follows:

1. All advertisements must be filed in the office of the Chamber of Commerce at least two weeks before the sales date.
2. Advertisements will be numbered consecutively as received in the Chamber of Commerce Office, and positions on the double page spreads which are to be used in the newspapers will be assigned in the same order.
3. No cuts or name signatures are to be used by any firm, and the typographical display is to be made as uniform as possible for the entire double page of advertisements.
4. Only one space will be sold to any one firm, and not more than three articles or groups of articles may be featured by any one firm.
5. The firm first turning in copy announcing a "special" has a preference for the article listed, and other firms offering the same article later on will be asked to change their specials.
6. The Censure Committee, whose duty it will be to check up the copy to see that each store is offering a different item, will meet not later than the tenth day before the Sales Day to check over the copy filed.
7. It is not necessary to mention "Oskaloosa" or to say that the bargains offered are for Sales Day only, for these facts will be given in the heading of the page.
8. Every firm taking part in the Sales Day plan must feature some special article at an attractive price. No general advertising will be accepted for these pages.

9. All items must be priced in the advertisements, and no general discount sale may be advertised in the space or on the same page.

The Committee planned to vary the advertising from time to time in order to make it more effective. The total cost of publicity work for each Sales Day, however, presumably would not exceed $275. The Committee had estimated that at least 55 firms in the city would take advantage of the Sales Day opportunity; with this number of firms participating, the promotional costs would be not more than $5 for each store. Although the space allotted to each store would depend somewhat on the number of stores cooperating, the Committee estimated that, with 55 stores represented, each store could be given a space approximately 3½ inches by 2½ inches. The planned copy for the first Sales Day provided for heading the double page spread "Oskaloosa Monthly Sales Day." Below the group of individual advertisements the Committee intended to state that the Oskaloosa Sales Day was to be a regular monthly event.

EXHIBIT 1

FREEMONT, NEBRASKA, SALES DAY RESULTS

Number of Stores Participating in the Sales Day Event in August, 1920, and in October, 1920

Kind of Store	Number in August, 1920	Number in October, 1920
Groceries	4	9
Rackets	1	2
Music	1	1
Shoes	1	2
Men's Clothing and Furnishings	6	6
Department Stores	3	4
Electrical Shops	2	2
China	1	1
Books	1	1
Jewelry	1	3
Photographers	1	1
Furniture	2	4
Delicatessen	1	1
Hardware	1	3
Newspapers	1	2
Automobiles and Accessories	1	5
Millinery	1	0
Drugs	1	5
Lumber	0	2
Hay and Feed	0	1
Harness	0	1
Total	30	56

A similar plan for a cooperative Sales Day had been in operation in Freemont, Nebraska, for several months, with results which were said to be highly satisfactory. As shown in Exhibit 1, the number of merchants participating had almost doubled in the two months following the inauguration of the plan.

Mr. Hanlin was shown a copy of one of the full-page spreads used in Freemont to advertise a Sales Day. He studied in particular the advertisements of two department stores in Freemont which he judged were comparable to his own store. These advertisements were as follows:

BARNES, PARKER & COMPANY

New stock of 27-inch plaid and check dress gingham—limit 10 yards to a customer. 10 cents a yard. 85-cent and $1.25 dress goods, 36- and 42-inch widths, 59 cents a yard.

CONNOR AND FREEBOURNE

Ready-to-wear silks

Eighteen silk dresses, value $32.50, sale price $16.75. 4,000 yards of silk at $1.39, $1.50, and $1.75 a yard.

Although it appeared that the Sales Day was proving a success in Freemont, Mr. Hanlin nevertheless questioned the advisability of having his store enter into such a plan. The Hanlin Kenell Company had established a reputation for its conservative policies, and it regularly held fewer special sales than any of the other department stores in the city. Mr. Hanlin was of the opinion that it would be difficult for all the stores to offer at reduced prices merchandise that would be sufficiently interesting to attract customers. He believed, furthermore, that the residents of Oskaloosa would take advantage of the bargains offered to a much greater extent than would residents in outlying districts, with the result that the primary object of Sales Day, the securing of new customers, would be defeated.

Mr. Hanlin also compared the project with the plan for a "Dollar Day" which had been tried in the city some time before and which had proved unsatisfactory, chiefly because of the inability of the merchants to make their bargains sufficiently attractive. In this connection it was pointed out that the restriction as to price had made it difficult to select desirable articles, and that, if a merchant could select articles at any price he desired, this difficulty would be overcome. The committee believed, however, that it would be advisable for the stores to select merchandise

which could be sold for less than a dollar, and in which women were particularly interested. They suggested that department stores might appropriately offer in a sale of this kind such articles as kitchen utensils; household necessities; low-price articles of wearing apparel, such as hose, cotton gloves, or aprons; or cotton cloth of the cheaper grades, such as gingham, cotton flannel, or percale.

10. H. C. STONE COMPANY

DEPARTMENT STORE—BARGAIN THOROUGHFARE

Sales of the H. C. Stone Company's department store were principally in medium- and low-price merchandise. As a means of increasing sales volume and achieving a rapid rate of stock-turn, the company operated a bargain thoroughfare. This thoroughfare consisted of an aisle extending the full length of the first floor near the center, and a section of floor approximately 10 feet by 18 feet set off at one end of the center aisle for the display of suits, coats, and dresses on revolving racks. In the aisle was a line of 26 bargain tables.

When the bargain thoroughfare had first been put into operation in the store, the plan had been to use the tables only for the display of merchandise which had been purchased by the various department buyers especially for the thoroughfare. Later, however, it had appeared desirable to use the space for disposing of slow-selling merchandise. This practice, although still permitted to a limited extent, had begun to appear of doubtful value.

An attractive sign over the tables, visible from either the side or the front entrance, designated the section as a "Bargain Thoroughfare." All merchandise displayed on the thoroughfare was marked at odd figure prices. Blue and white price cards, 6 inches by 12 inches, were displayed on the tables and suit racks. Fourteen salesgirls were regularly employed on the thoroughfare, but for special sales it was often necessary to place one girl at each table. The bargain thoroughfare was used by all the buyers in the store for displaying goods from their departments which offered special values.

The manager of the thoroughfare had considered refusing to allow any merchandise to be sold on the thoroughfare which had not been purchased especially for this method of selling. Although

the sales made at each table were credited to the departments displaying goods there, a sales record was kept also for the thoroughfare as whole, and it was to the thoroughfare manager's interest to have only readily salable merchandise placed on the bargain tables.

Every Monday and Thursday morning the thoroughfare displays were completely changed. Merchandise was allowed to remain on the thoroughfare tables three days; at the end of that time all goods remaining were removed from the tables by the buyers, and new lots were substituted. In view of this arrangement, the buyers tried to select merchandise that could be sold out in three days, if possible. When merchandise was removed from a table, it might be handled by the department buyer as he deemed best. Buyers were encouraged, however, to keep such merchandise in their reserve stocks and to place it on the thoroughfare again, after a week or ten days, at further price reductions, rather than to display it in their departments.

The bargain thoroughfare manager maintained that if a buyer placed merchandise on sale in his department after removal from the bargain thoroughfare the merchandise should be given the same price as before it had been sent to the thoroughfare. He contended also that merchandise which had been purchased especially for the thoroughfare should be given a reasonable additional mark-up before being offered for sale in a department. He apprehended that if a customer saw merchandise displayed in a department at a price no higher than that at which it previously had been offered on the thoroughfare, she would lose confidence in the advantage of buying goods offered on the thoroughfare.

On several occasions it had happened that buyers displayed the same merchandise for the same price simultaneously in their departments and on the thoroughfare. The manager considered that if this practice was to be continued the value of the thoroughfare would be lessened greatly. The buyers for several smallwares departments believed, however, that such duplication was desirable; for customers often bought small items from the tables merely because they had seen them in passing.

Experience had shown that the tables situated near the cross aisles and those at the front of the store were most popular with customers and secured the largest volume of sales. Therefore the tables were assigned to departments in rotation in order that each department might secure the benefits accruing from

the most favorable locations. Every third day, when the displays were changed, each department moved one table forward; and the department using the table at the front of the store went back to the last table in the line. It was questioned, however, whether this plan of rotation permitted really effective selling.

Did the H. C. Stone Company follow sound selling policies in the operation of its bargain thoroughfare?

11. DORKING COMPANY

DEPARTMENT STORE—DEPARTMENTAL SALES EVENTS

In 1924 the Dorking Company, a department store which sold high-medium-grade merchandise, had increased the use of special departmental sales events. These sales events were planned carefully in advance, and the merchandise, which usually consisted of special purchases of the regular lines carried by the company, was offered at lower than usual prices. The substantial increase in the company's sales volume during the period from 1924 to 1928 was attributed largely to an intensification of this policy. Total store sales in 1928 were about $20,000,000. While the policy of special departmental sales events was regarded as successful from the standpoint of the store in general, the results in several departments, among them the hand bag department, had not been satisfactory.

During 1928, excluding the month of December, there had been 24 special sales events in the hand bag department. A special sales event was regarded as being fairly successful when the advertising expense for the event was less than 10% of the sales of the merchandise that had been advertised. In 1928 the advertising expense of the hand bag department for special sales events had ranged from 7% to 33% of the sales, with an average advertising expense of 10.4%. Total advertising costs in the hand bag department for the same year were 2.4% of total sales. Total sales in the department in 1928 were approximately $400,000, a decline of 0.3% from the 1927 sales volume.

In contrast to the experience of the hand bag department, in the women's shoe department the policy of departmental sales events seemed to have been successful during 1928. Advertising expenses for the 18 special events which had been held ranged from

3.8% to 12.3% of sales, with an average expense of 6.1%. Total advertising costs for the women's shoe department were 2.4 % of sales. The total sales of $700,000 in 1928 for this department were 23% larger than the sales for 1927. Part of the increase was due to the addition of a lower-price line of shoes.

The routine of planning and executing departmental sales events in the Dorking Company was as follows: A department buyer, usually on his own initiative, made plans for a special sales event and submitted them to his divisional merchandise manager for approval. A buyer frequently requested the repetition of a successful sales event of the previous year. Special selling events designed to take advantage of attractive market offerings also were often requested by the buyers. The company expected its buyers to meet or exceed daily the sales for the corresponding day of the previous year.

The buyers discussed proposed special sales events with their divisional merchandise managers several weeks in advance of the suggested sales dates. On the basis of these discussions the divisional merchandise managers submitted to the general merchandise manager lists of the special sales events which they wished to hold in their divisions. The general merchandise manager correlated the proposed sales events which were listed, and turned the lists over to the publicity division for consideration and approval. The plans then went to a promotional committee, which comprised representatives of the merchandise, publicity, service, and finance divisions. At the meeting of the promotional committee, controversial points were settled, and a definite schedule of sales events for a two weeks' period was made out, the period to start two weeks after the promotional committee's meeting.

The sales volume of the store varied on different days: the greatest sales volume was on Saturday, with Monday, Wednesday, and Friday next in sales volume; Tuesday and Thursday had the smallest sales. Sales events commonly were for a period of three days, although some were for two days or less. In the opinion of an executive of the company, the first day's sales of a two-day sales event were no larger than the first day's sales of a three-day event. This executive estimated that in general 45% of the merchandise purchased for a special sales event was sold during the first day, 15% during the second day, and 5% during the third day, if the event continued for three days. Sales events

which began on Thursday and continued through the remainder of the week were most often sought by department buyers. After the schedule of special departmental sales events had been formulated, the buyers purchased the merchandise wanted. The merchandise for the sales event had to be of a type that customers were buying freely at the regular price.

The advertisements for special sales events usually carried cuts of the merchandise on sale. The advertising copy for such events varied in character, Exhibits 1, 2, and 3 being representative of the different types of advertisements used. All sales for clearance purposes were labeled as such in the advertisements. Advertising for a special sales event always specified the day on which the sale would begin. Advertising for special sales events showed prices in larger type than that employed in the advertising of regular merchandise.

EXHIBIT 1

DORKING COMPANY

Typical Advertising Copy for Special Sales Event

BEGINNING WEDNESDAY FOR MISSES AND WOMEN—

A sale unlike any we've had before this season!
A sale unlike any we'll have again for some time!
Not a sale for the extravagant woman! but a—

SALE FOR ECONOMICAL CONSCIENCES

new COATS,
$25

(duplicating in every way coats that we've had at much higher prices!)

Not often can we "let you in" on such worthwhile values!
Coats that are exquisite in detail, beautifully lined with heavy satin or crepe de chine; rich, smart fur collars that are particularly "good buys," or distinctive dressmaker furless coats, so fashionable just now.

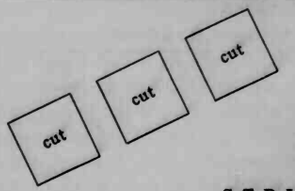
Dressmaker styles with soft details.
Silk coats with scarf or rolled collars.
Kashmirs, basketweaves, or broadcloths.
Fashionable navys, tans, blacks, or greys.
Striking contrasting silk linings.
Tri-color silk scarfs that can be worn separately.
There are capes, scarfs, tuxedo collars, bows, button trimmings, ties, silk stand-up collars—in broadcloth, kashmir, basketweaves, or heavy silks! Navy, black, tan and gray! In women's sizes, 36 to 44, and little women, 36½ to 44½. Misses' sizes, 14 to 20, and little misses, 14½ to 20½.

NOTE: A few coats have white ermine collars which a fur expert valued at $50—and a few coats have squirrel collars, valued at $35.

EXHIBIT 2

DORKING COMPANY

Typical Advertising Copy for Special Sales Event



Sale begins FRIDAY

Uphill work

it really was, selecting three to sketch when there were so many that deserved it as much. It's a long time since we have seen such

STRIKING
LEATHER BAGS, $2.65

Large bags for travelling or business with double or triple frames or with passport pockets.

Dressy small pouch bags—back strap or double handles.

Bags with shell (manufactured) frames—metal frames with enamel, leather covered frames.

Stunning smooth calfskin—reptile grained leathers—cross grained morocco.

Bright red bags, bright green—beige, tan, brown, navy, black.

All of which doesn't tell you the half—you'll just have to see them.

Most of the merchandise which was used in the special sales events was purchased at special prices from the company's regular resources. Regular resources were used for two reasons. First, only regular resources would be willing to sell the merchandise at lower prices. For instance, the average initial mark-up on purchases of regular merchandise in the hand bag department was approximately 35%, while the average mark-up on purchases for special sales events was about 31%. Prices during special sales events in the hand bag department, however, were about 20% lower than regular prices. Second, the company wished to use the same merchandise which it was selling regularly. If a lot did not consist of the company's regular merchandise, customers could not determine whether they were making an advantageous purchase, and the merchandise could not be added to the company's regular lines after the sale. Thus in the women's shoe department the company had used in special sales the lines which had been sold regularly. In the hand bag department, however, where styles

changed rapidly, it was not customary to secure for special sales the same styles that had been sold in regular stock.

EXHIBIT 3

DORKING COMPANY

Typical Advertising Copy for Special Sales Event

For women short women

For misses

cut

cut

cut

cut

cut

WASHABLE prints!
CHIFFON prints!
CREPE prints!
GEORGETTE prints!
SHANTUNG prints!
RADIUM prints!
POLKA DOT prints!
FOULARD prints!
BORDER prints!
WEE flower prints!
MAPLE leaf prints!
CONFETTI prints!

Exceptionally good-looking prints you'll agree, when you see these

PRINT ENSEMBLES AND DRESSES

$15

Beginning Thursday

Feast your eyes on these details!

—dresses with pleats all round—silk slips—youthful jackets.
—Misses' suntan back dresses with printed Shantung jackets.
—Three-quarter length coats in plain or printed chiffon; dresses for women and short women, picot-edged, and with silk slips.
—Beautifully finished yokes, bows, eggshell collars, tucking all round—black backgrounds that are washable. Travel dresses—sports outfits—vacation ensembles—party dresses. $15!

Women's and short women's sizes 36 to 44.
Misses' sizes 14 to 20

When merchandise for special events was received, it was examined and approved by the publicity division. The approval of the comparison office was necessary also before an advertisement for a special sales event was released. Before the comparison department gave its approval, it shopped competing stores thoroughly for similar merchandise to be sure that the merchandise to be advertised was priced at least 10% below the prices at which competitors were selling the same grade of merchandise. At one

time the Dorking Company had required that all merchandise used in special sales events be priced 25% below the regular price for the merchandise. It had been found impossible, however, to carry out this policy without incurring a loss; and the policy had been abandoned. Merchandise for special sales events usually was priced at one of the department's regular price lines, but there was a growing tendency toward using odd prices. At the end of a special sales event, the merchandise remaining was repriced to show a normal mark-up and put into the departments' regular stock. The company estimated that, on the average, between 35% and 40% of the merchandise purchased for special sales remained at the close of an event.

During 1928 approximately 50% of the company's newspaper advertising space was devoted to special departmental sales events. During the same period, sales of specially promoted merchandise amounted to 12% of total sales. Special sale merchandise seldom was given window display, because the executives of the company did not wish to have any duplication of publicity efforts.

Some executives of the Dorking Company, believing that special sales events tended to cheapen the store, wished to reduce the number of special sales events to a minimum and to use them only when satisfactory results were assured.

12. TASP & COMPANY

DEPARTMENT STORE—DEPARTMENTAL SALES EVENT[1]

Tasp & Company sold merchandise suited to the needs of the upper middle class of consumers. In 1922 the sales volume of the entire department store was about $8,000,000, but in the spring of 1923 sales were considerably lower than during the same period in 1922. For the fall season of 1923, nevertheless, the company proposed to increase its planned volume of sales by approximately 15%. To attain this increase, it was decided that buyers in all the departments were to offer, from time to time, specially purchased merchandise at prices 20% to 30% below those usually charged for comparable grades of merchandise. In

[1] See case of Tasp & Company, 7 H.B.R., 501.

accordance with this decision, during the fall of 1923 the buyer for the women's machine-made dress department was studying the possibility of finding some lot of merchandise that could be bought at a marked price concession.

With the exception of the semiannual clearances, Tasp & Company did not hold store-wide sales. For a department store to hold such sales, which customarily lasted from three days to a week or perhaps more, it was necessary that practically all the buyers be able to assemble merchandise bought at substantial price concessions. Tasp & Company did not regard store-wide purchases of this kind as feasible. On the other hand, it was the company's policy to conduct departmental special sales whenever buyers could purchase desirable merchandise at marked reductions in price. Such purchases often could be made from manufacturers or others who had surplus stocks, and from small manufacturers who desired to obtain ready cash. By thus taking advantage of market conditions, buyers frequently were able to obtain their normal mark-ups for special lots of merchandise and at the same time to offer the goods to the store's customers at less than the prevailing retail prices.

Tasp & Company sold unbranded machine-made dresses at prices which ranged in 25-cent and 50-cent gradations from $1.50 to $7.50. For the fiscal year ending August 1, 1923, the sales of $162,000 in the women's machine-made dress department of Tasp & Company were 2.3% lower than for the preceding year. Planned sales of the department for September, 1923, were $11,000; the actual sales for that month amounted to $9,704. The planned sales for October were $11,000; actual sales amounted to $9,135. The average original mark-up in the department during these months was 37.4% of retail prices, the gross margin 32.8% of net sales, and the mark-downs 7.4% of net sales. The total expense of the department was 29.6% of sales, including direct expense of 16.1%.

Early in November, 1923, a large manufacturer who had supplied Tasp & Company with a substantial quantity of machine-made dresses learned of the store's program for special sales events. He stated that because of depressed conditions in the textile industry, and because of his wish to keep his factory running, he would supply on demand at reduced prices during the next ten months an unlimited quantity of dresses in the styles, colors, and price lines specified by the store. The quality of the

dresses offered was to be the same as that which the store previously had purchased from the manufacturer. The buyer for the women's machine-made dress department believed that this offer had been prompted by the close business relationship between Tasp & Company and the manufacturer. The latter, in so far as the buyer knew, was reliable in every respect.

In considering this offer, the buyer discovered that he could not obtain the usual mark-up on dresses of this type and at the same time make use of the established series of prices in the department. For instance, a 20% reduction in the price of a dress which ordinarily sold for $2 meant that the price would be $1.60. The nearest established price, however, was $1.50. The manufacturer had so set his prices that if the $2 grade of dress was retailed for $1.50 it would yield a mark-up of but 26%. If the dress was marked at the next higher price line, $1.75, the mark-up would be 36.5%. The buyer, however, considered that a reduction in price of only 25 cents on $2 dresses would be insufficient to attract customers. Similar difficulties would be encountered in pricing the other grades of dresses, with the result that, if the buyer accepted the manufacturer's offer, either he would have to take a mark-up of about 26% on the specially purchased goods instead of the usual 33% for that type of merchandise or else he would have to ask permission to use special selling prices.

What course should the buyer have followed?

13. KILLARNEY COMPANY

DEPARTMENT STORE—DEPARTMENTAL SALES EVENTS

The buyer in the men's furnishings department of the Killarney Company had held approximately 30 special sales of shirts a year, 15 in the spring season and 15 in the fall season. Special sales of other merchandise in the department were held infrequently. The buyer had considered the sales of shirts necessary because of the frequent shirt sales of competitors and also because of his desire to secure a steadily increasing sales volume in his department. The merchandise manager was of the opinion, however, that the special sales were detrimental to the reputation of the Killarney Company and that they were less profitable than the routine sale of merchandise. In the spring season of 1924,

therefore, he reduced the number of special sales of shirts to ten, and planned to reduce the number to five during the fall season of 1924. This decision was reached in spite of the buyer's protest that he could not meet competition and that sales in his department would be reduced by 25% if the number of special sales was curtailed.

The Killarney Company operated an attractively equipped department store in which the annual volume of sales was more than $10,000,000. Sales were made chiefly in the medium and high-medium grades of merchandise. In the men's furnishings department, sales in 1923 were approximately $110,000; a substantial proportion of this amount represented purchases by women.

The following description was given by the merchandise manager of a typical sale of shirts in the spring of 1923:

> We bought 500 dozen broadcloth shirts at $19.50 a dozen to sell at $2.55 each; the regular selling price was from $3 to $3.25. The sale lasted from Saturday to Saturday, inclusive. There remained after the sale 280 dozen shirts, which we marked back to $3 each, at which price 65 dozen were sold.
>
> Later we reduced 215 dozen to $2.65 for another sale. After this sale we had on hand 188 dozen in broken sizes and colors. We purchased another lot to fill the sizes and colors and held another sale at $2.35. One hundred nine dozen of the original lot of shirts remained after the sale; we put them into a clearance sale at $1.85 and sold 31 dozen.
>
> We reduced the remaining 78 dozen to $1.35 the following month and had 41 dozen on hand at the end of that sale. At the next clearance sale we reduced them to 95 cents and sold all but 6 dozen, which we closed out to a junk dealer at $3 a dozen.

After the reduction in number of special sales of shirts, the men's furnishings department showed the following operating figures for the spring season of 1924 as compared with the spring season of 1923:

EXHIBIT 1

KILLARNEY COMPANY

Men's Furnishings Department—Operating Results for Spring Seasons, 1923 and 1924

(Net Sales = 100%)

	1923	1924
Inventory at Retail, January 1	$29,500	$28,300
Purchases at Retail	75,200	65,800
Sales	56,500	50,500
Retail Reductions	5,350	4,790
Inventory at Retail, June 30	42,850	38,810
Gross Margin	31.9%	32.5%
Total Expense	30.8%	28.4%
Net Profit	1.1%	4.1%
Average Sales Check	$ 2.90	$ 2.95
Advertising Expenditure	$ 3,060	$ 2,480

Should the Killarney Company have further reduced the number of special sales of shirts?

14. DENLEY COMPANY

DEPARTMENT STORE—10-CENT HOSIERY SALE

During the early part of February, 1929, the management of the Denley Company considered the advisability of continuing the company's semiannual 10-Cent Hosiery Sale. This sale, which lasted three days, had been held for the previous three years in the months of March and October. The Denley Company sold popular-price merchandise, and the executives of the company believed that price was an important buying motive among the company's customers.

The Denley Company, a department store located in a suburb of a large western city, had annual sales of $1,500,000 in 1928. Although the company's annual sales volume had doubled during the period from 1922 to 1926, sales decreased slightly in 1927 and 1928. The increase in total sales from 1922 to 1926 had been secured largely through the use of special store-wide and departmental sales. Store-wide sales in 1928 consisted of a Birthday Sale; a July Sale, which was based upon concessions obtained from

manufacturers; and two Dollar Days, which were held in conjunction with Dollar Day sales in other stores in the community.

In 1927 and 1928 the company had held Dollar Hosiery Sales semiannually, in addition to the 10-Cent Hosiery Sales. The sales volume of the Dollar Hosiery Sale was approximately 50% of that of the 10-Cent Hosiery Sale. Total sales of the hosiery department, which carried women's, men's, and children's hose, were slightly over $90,000 in 1928. In that year the company secured a gross margin in the hosiery department of approximately 30% of net sales, while operating expenses were approximately 28%. During the 10-Cent Hosiery Sale a customer could buy one pair of hose at the advertised price and another exactly similar pair for 10 cents. The Denley Company usually offered in this sale women's hose in two styles at each of the following prices: 59 cents, $1, $1.65, $2, and $2.25. Only a few items of men's and children's hosiery were included in the sale, and the sales of these lines were small.

Plans for each 10-Cent Hosiery Sale were formulated more than a month in advance, and purchases were made several weeks before the sale began. The hosiery department buyer in his purchases followed definite plans which were based on the number of pieces sold during previous sales. The merchandise offered in the sale was not the regular merchandise sold by the company, but consisted of special lots. Some of these lots were obtained from the company's regular sources of supply, which often granted special prices on such merchandise in order to retain the company's goodwill. Other lots were obtained from manufacturers or wholesalers with whom the company had had no previous business; these lots usually consisted of merchandise which the manufacturers or wholesalers were willing to dispose of at special prices.

Sales of the hosiery department during the 10-Cent Hosiery Sales for the years 1926, 1927, and 1928 had been as follows:

March, 1926	$4,100
October, 1926	3,900
March, 1927	4,400
October, 1927	4,900
March, 1928	3,800
October, 1928	3,600

During these events, about 95% of the sales made in the department were of the specially bought merchandise. Although a few of the Denley Company's customers believed that the special prices in the 10-Cent Hosiery Sales applied to regular lines of merchandise, a majority apparently realized that the sale was merely a promotional event offering specially purchased hosiery.

The Denley Company had instituted the 10-Cent Hosiery Sales for the purpose of increasing the sales volume in the department. That the company apparently had secured an additional volume of several thousand dollars annually from the sales was indicated by a comparison of sales for the week preceding, the week of, and the week following the 10-Cent Hosiery Sale. These sales figures for the period from 1926 through 1928 were as shown in Exhibit 1.

EXHIBIT 1

DENLEY COMPANY

Hosiery Department—Sales for the Week Preceding, the Week of, and the Week Following the 10-Cent Hosiery Sale, 1926–1928

	1926		1927		1928	
	March	October	March	October	March	October
Week Preceding	$1,270	$1,410	$1,340	$1,530	$2,470	$1,800
Week of Sale	4,380	4,270	4,860	5,320	4,450	4,340
Week Following	1,110	1,250	1,800	1,530	1,400	1,930

It was the belief of one executive that sales during the weeks preceding and following the sale were equal to normal weekly sales in the hosiery department. In his opinion, the 10-Cent Hosiery Sale had not affected sales of the regular lines of hosiery sold by the company. Annual sales for the hosiery department from 1925 through 1928 had been as follows:

1925	$106,000
1926	98,500
1927	103,000
1928	90,500

Executives considered that the decline in the hosiery department's sales volume had been caused by the intense competition existing in the city. They were divided in their opinion as to the effect of the 10-Cent Hosiery Sale on sales in other departments.

During the first special hosiery sale, in March, 1926, the Denley Company had secured an initial mark-up of 12%. By revising selling prices upward, for instance, from $1.50 to $1.65, and by obtaining lower prices from manufacturers and wholesalers, the company had raised the initial mark-up to approximately 20%

by October, 1928. The executives believed that, although a larger mark-up could not be obtained, the company should continue to obtain a mark-up of 20%. Except in March, 1928, the company had sold in the 10-Cent Hosiery Sales 75% or more of the merchandise purchased for those events. Usually the company placed the merchandise remaining after the sale in its regular stocks at prices somewhat below the prices used in the sale. For instance, hosiery sold in the sale at $1.65, with an additional pair for 10 cents, would be priced at $1.35 a single pair after the sale. If the surplus stock consisted of unpopular colors and odd sizes, it was offered for sale on bargain tables on the main floor. The prices obtained on this merchandise after the sale ranged from 50 cents to $1 a pair.

Advertising expenses for the 10-Cent Hosiery Sale during the three years had been between 5% and 6% of the department's total sales during the sale periods. All the advertising space for merchandise to be sold on Thursday and Friday, the first two days of each sale, had been devoted to the hosiery sale. Announcement of the sale had been made also in the advertising for Saturday, but most of the space for this day had been devoted to other departments.

Executives of the Denley Company were reluctant to discontinue the 10-Cent Hosiery Sale, because they believed that the sales volume obtained was needed to meet fixed operating expenses, and because they knew of no other special selling event that would attract customers as the 10-Cent Hosiery Sale did.

Should the Denley Company have continued the 10-Cent Hosiery Sale?

15. MACHEATH RADIO COMPANY

UNIT RADIO STORE—SPECIAL SALES EVENT

In March, 1929, the MacHeath Radio Company was offered by a wholesaler a lot of 38 Supreme radios in an electric console model that was to be discontinued. The Supreme radio set was a nationally known product which had a reputation for good reception and clear reproduction. Although the company had not carried Supreme products, the manager considered buying this lot to offer at a special sale.

The MacHeath Radio Company, which was located in a medium-size city, sold radio receiving sets and equipment. Of its sales of $150,000 in 1928, over 80% had been in standard radios and parts in the current models of the six nationally advertised lines which the company regularly carried. The remainder of the 1928 sales had consisted of odd lots of discontinued models and surplus stocks of radio sets which wholesalers had offered at special clearance prices.

There were between 20 and 25 dealers for each of these radios in the city in which the MacHeath Radio Company was located. The company ordinarily purchased receiving sets and equipment from wholesalers or jobbers who held exclusive agency contracts with manufacturers. Radio wholesalers usually gave discounts of 40% off list prices. The MacHeath Radio Company ordinarily retailed merchandise at list prices. Practically all sales of radios in the MacHeath Radio Company were made on an installment basis. The length of time given for payment ran from three months to one year. Sales in which old machines were taken as part payment made up a large proportion of the company's business.

The 38 Supreme sets were offered to the MacHeath Radio Company at $57 each; their retail list price was $160 each. Although the company did not carry Supreme radios, the manager knew that they usually were sold to retailers at the list price less a 40% discount. The manager believed that it would be possible to sell the sets at $120, on special credit terms which would allow the customer to pay over a period of eight months. He believed that $300 expended for newspaper advertising during the first two weeks of the special sale would enable the company to sell all the radios within a month. He planned to keep the sets at the same price, $120, until all had been sold. Purchasers of the Supreme radios would not receive the installation and repair services which the company gave to purchasers of its regular lines, but they could return, within six days, sets which proved unsatisfactory. All sales would be regarded as final after six days had elapsed.

Manufacturers of radios made yearly changes in their models, the new models coming out usually during the summer months. The new Supreme model would not be announced by the manufacturer until late in the spring of 1929. With few exceptions, radio manufacturers produced more radios than were sold cur-

rently. For this reason, manufacturers often found it necessary during the spring to offer for sale, through wholesalers, their surplus stocks of models that were to be discontinued. In order that retailers who still had stocks of the obsolescent models might not face advertised price cutting, manufacturers usually insisted that authorized retailers maintain the list prices. Manufacturers believed that the larger discounts offered would induce retailers to exert greater selling efforts than usual. Loss of an agency was the penalty for not maintaining the list price. While the price requirement apparently was observed by retailers, their usual practice in selling models to be discontinued was to offer larger allowances on old machines than were customary.

The manager of the MacHeath Radio Company did not wish to grant larger allowances to persons who purchased the Supreme radio, nor did he want to take any more old sets into stock. He knew of no way whereby he could advertise effectively that he was giving liberal price reductions to purchasers of the Supreme models. On the other hand, he was certain that the public would respond to an advertisement which promised a 25% reduction in price. Since the MacHeath Radio Company did not carry the Supreme radios regularly in stock, there was no danger of forfeiture of an agency.

Should the MacHeath Radio Company have purchased the lot of Supreme radios for a special sale?

16. CHESTERFIELD COMPANY

VARIETY CHAIN—DEPARTMENTAL SALES EVENT

In May, 1928, the Chesterfield Company was offered approximately 75,000 dozen washcloths and towels at cost prices of 45 cents and 85 cents a dozen for the washcloths, and $1, $1.55, $2.50, and $3 a dozen for the towels. Although the offer was made by one of the company's regular sources of supply, the merchandise was not similar to merchandise already in stock. The buyer for the towel department wished to offer the washcloths at 5 cents and 9 cents, and the towels at 9 cents, 19 cents, 29 cents, and 39 cents, respectively, during a special sale of a week's duration in June.

The Chesterfield Company operated 150 stores selling merchandise from 1 cent to $1. Sales in 1927 were approximately

$40,000,000. Each year, during the spring and fall, the company held two store-wide sales events of a week's duration. For these sales the company purchased merchandise at special prices and merchandise that was different from that regularly carried in stock. The sales, which were held at the beginning of the two seasons, served to attract the attention of customers to new and seasonable merchandise. The company had found that usually only a small proportion of the merchandise purchased for the two store-wide sales remained at the close of the sales. In instances of large left-over stocks, the merchandise was put into stock at the nearest regular price line either above or below the special price. Small stocks of sale merchandise, however, were placed on bargain tables at reduced prices.

The company had not found it necessary to hold clearance sales, since the rate of stock-turn, 8 times annually, resulted in clean stock at all times. Excess stock or shopworn merchandise regularly was placed on the bargain tables, usually at reduced prices. Store managers on their own initiative or on recommendations of store superintendents, who supervised the operations of about 20 stores, decided when mark-downs should be taken. Mark-downs in 1927 had been approximately 2% of net sales.

As a rule, executives of the company did not favor holding special departmental sales events, because, although such events usually resulted in satisfactory increases in sales for the departments concerned, many of the other store departments showed losses in sales volume at such times. The company had discontinued the periodic sales which it had held in its house furnishings department, in order to secure constant promotion of regular merchandise in this department at regular prices.

The quantity of washcloths and towels offered to the company in May was sufficient to take care of the requirements of all the company's stores if a special sale was to be promoted. The quantities, costs, and proposed selling prices of the washcloths and towels were as shown in Exhibit 1. The domestics department, in which towels were sold, had secured a gross margin of approximately 27% during the first four months of 1928. Towels, table cloths, blankets, sheets, and pillow cases were among the principal items sold in the department. In June, 1927, the domestics department had had sales of approximately $120,000. In most of the stores it would be unnecessary to employ additional salespeople for the proposed sale.

EXHIBIT 1

CHESTERFIELD COMPANY

Quantities, Costs per Dozen, and Proposed Selling Prices of Washcloths and Towels Considered for Purchase in May, 1928

Item	Quantity (Dozens)	Cost per Dozen	Selling Price per Unit
Washcloths	13,500	$ .45	$.05
Washcloths	8,250	.85	.09
Towels	24,000	1.00	.09
Towels	18,000	1.55	.19
Towels	8,000	2.50	.29
Towels	5,000	3.00	.39
	76,750		

The towels offered to the company were equal in quality to towels which the company sold regularly at prices from 10 cents to 20 cents higher than the proposed sale prices. Several towel manufacturers had produced towels in excess of demand, but the buyer did not know whether competitors would hold sales of towels at the same time. He believed, however, that a sale of towels in June would be well timed, inasmuch as sales of towels always had been large in that month.

If the sale were held, the advertising expenditures could not exceed 1% of the expected sales. The company would not permit the use of comparative prices in advertising the towels. In the opinion of the company's executives, comparative prices meant little to customers because many companies ascribed fictitious values when using comparative prices.

Should the Chesterfield Company have purchased the towels and washcloths and planned to offer them in a special departmental sales event?

17. NOLTON COMPANY

VARIETY CHAIN—DEPARTMENTAL SALES EVENT

The Nolton Company operated a chain of 25-cent to $1 stores in 63 cities in the Unites States east of the Rocky Mountains. There were 68 stores in the chain. The merchandise was divided into 30 departments. In the central office there was a merchandise manager for each of the departments. The merchandise managers were allowed latitude in the management of their departments.

They made the purchases, planned special sales, and advised the store managers regarding sales and inventory quotas and selling prices for the merchandise of their departments.

Every six months each store manager submitted to the central office quotas by departments for the ensuing six months' period for monthly sales and inventories. The six months' periods were from February 1 to July 31 and from August 1 to January 31. The merchandise managers and officers of the company made such revisions as they deemed advisable, and the revised quotas were returned to the store managers for approval. Store managers regulated their stock needs by requisitions, which were placed as frequently as necessary through the central office, in accordance with departmental planned sales for the month and the planned inventory at the end of the month during which the merchandise was delivered to the store. The merchandise was billed to the stores at cost, and shipped from the manufacturers or the central warehouse.

The drapery department had four noticeably dull months during the year: January, February, August, and September. In August, 1924, the merchandise manager of the drapery department received an offer of finished curtains at a price which permitted their sale as a leader. Curtains of this type were not sold regularly because it was impossible to sell them profitably within the price range adhered to by the Nolton Company. The drapery department regularly sold cretonne by the yard and window shades. Because September was one of the dull months for his department, the manager was inclined to accept the offer; but inasmuch as a selling price low enough to attract attention would not permit the usual mark-up, he was in some doubt. He usually had tried, however, to obtain sales volume during the dull months without regard to profits, making up any deficiencies in margin from higher mark-ups during the busy season.

Each department had a six months' gross margin quota which was the same throughout the chain for that department. Store managers were advised by the department managers regarding the retail prices that they should charge, but were permitted to vary them, provided they did not exceed the $1 limit and provided each department showed at least the required gross margin at the end of the six months' period. In addition to setting the gross margin for the chain by departments, the company set an operating profit percentage on sales for each store. This operat-

ing profit was determined by deducting from the gross margin the amounts for pay roll, light, heat, advertising, supplies, and other expenses which were under the control of the individual store manager. In general, the departmental merchandise managers were responsible for gross margin, and the store managers were responsible for operating profits. The general policy was for the store managers to order merchandise from the department managers, who also could send unordered merchandise to the stores for special sales events, regulating the quantity sent to each store and the selling price.

A manufacturer of window curtains in August, 1924, was without sufficient orders to keep his factory in operation. He offered the drapery department manager of the Nolton Company 15,000 pairs of curtains at 67½ cents a pair to be delivered f.o.b. factory on September 6, net 10 days from date of invoice. The order was to be divided equally among the following kinds of curtains: plain scrim, hemstitched and ruffled; plain hemstitched marquisette; plain marquisette; fancy ruffled marquisette; dotted ruffled marquisette; and ruffled splash voile. These curtains regularly were sold by the manufacturer at varying prices, but his average price for such a lot was between 90 cents and $1 a pair.

The merchandise manager of the drapery department knew that the price quoted was lower than the manufacturer's usual price. He also knew that department and furniture stores regularly secured at least $1 a pair for the first three kinds of curtains and from $1 to $1.50 a pair for the other kinds. By offering the entire lot at a price of 89 cents a pair, the Nolton Company, he believed, could attract attention to its stores and especially to the drapery departments.

If he should offer these curtains for 89 cents a pair, he thought that they could be sold easily, but he would secure a gross margin which was substantially lower than the figure fixed for the drapery department. If he should sell them at $1 a pair, the bargain might not be sufficiently attractive. The curtains might not all be sold until October; and then customers would be likely to go to the stores where they usually purchased curtains. The busy season for draperies did not begin before the first of October. If the drapery department manager placed curtains on sale in September, the price had to be low enough to overcome seasonal buying habits.

Because September was a dull month in the drapery department, the regular salesforce in the stores was sufficient to handle

the increased volume of sales that a special sales event might be expected to produce. It would be necessary for each store to have an assortment totaling 200 pairs of curtains to support the advertising which each store manager would be expected to do for the sale. A delivery of this quantity to each of the stores would leave 1,400 pairs to be distributed to the various stores as the store managers might request, prior to the date of the special sales event. The number of pairs of curtains available for each store would not be enough to warrant advertising them unless the special event resulted in increased sales in other lines.

Should the Nolton Company have accepted the manufacturer's offer of curtains?

18. NAIRN COMPANY

DEPARTMENT STORE CHAIN—POLICY OF HOLDING NO SALES EVENTS

The Nairn Company, which operated 500 department stores selling chiefly medium- and low-price dry goods and apparel, had never held store-wide sales events, clearance sales, or special departmental sales of any kind. Although the company occasionally reduced prices for clearance purposes, its policy prohibited mention of the reduction and of former prices either by the salespersons or in advertisements. Several of the company's executives, however, questioned the company's policy of holding no sales events.

In 1929 the Nairn Company had total sales of approximately $100,000,000 and a stock-turn of 5 times. The company sold men's, women's, and children's wear, and dry goods, such as blankets, piece goods, and notions. For many years it had sold staple merchandise exclusively; but with the growing emphasis on style it had added style merchandise, principally women's and misses' ready-to-wear. As a consequence, the company found it necessary to reduce prices periodically in order to dispose of merchandise that was not up to date in fashion. Store managers were responsible for taking mark-downs. They received some advice from the company's buyers regarding the advisability of mark-downs on certain items, but generally they were the sole judges of whether prices should be reduced and of the amount of

reductions. The company's gross margin and operating costs were substantially lower than those of smaller competing chains.

Many of the store managers were part owners, and each store manager shared in the net profit of his store. While a store manager was required to make all his purchases through the company, he was permitted to select the items and to determine the quantities. Twice a year, at a convention of store managers, the company's buyers displayed samples of merchandise from which the store managers made their selections. The company had established price lines which it required store managers to observe. Managers were not permitted to change the selling price established for an item, except for a mark-down, and then they had to use a lower established price line.

In 1929 the Nairn Company expended approximately 2% of sales in advertising, chiefly in local newspapers. Advertising plans for the whole company were set up in advance for an entire season. The items advertised usually were new articles at regular prices. Advertising copy was prepared at the company's central office, and the executives expected store managers to make no changes in it. They knew, however, that store managers occasionally changed advertisements in order to meet conditions peculiar to their localities. Although merchandise that had been reduced in price was advertised at the end of the season, the advertising did not indicate that the price had been reduced or that the purpose of the advertising was to clear the merchandise. Store managers were not permitted to indicate in window or store displays that an article had been sold previously at a higher price. To customers who inquired why an article had been reduced in price, as, for instance, a $25 dress which had been marked down to $19.50, salespersons were instructed to reply, "We believe that this dress has a replacement value, under existing market conditions, of $19.50."

Should the Nairn Company have modified its policy of holding no sales events?

19. ROWLEY COMPANY

DEPARTMENT STORE—SPECIAL SALE OF REFRIGERATORS

The merchandise manager of the Rowley Company concluded, in July, 1922, that other stores in the city were getting the bulk of the business in refrigerators, and that his store should compete more aggressively for sales of refrigerators.

The Rowley Company operated a department store in a New England city with a population slightly under 50,000. In addition to house furnishings, which included kitchen goods and small articles of hardware, the Rowley Company sold ready-to-wear clothing for women and children; clothing accessories for men, women, and children; jewelry; millinery; art goods and novelties; notions; patterns; dress goods in silk, wool, and cotton; linoleum; rugs; wall paper; stationery; books; candy; and toys. In the city, two furniture stores, one hardware store, and another department store carried refrigerators.

The Rowley Company had carried some refrigerators during the two previous seasons, but had sold only a few. At the beginning of the 1922 season the store had placed in stock refrigerators priced from $27 to $87.50. The following table shows the various prices at which the refrigerators originally were marked, the number purchased to sell at each price, the sales at each price, the reduced prices, and the sales at the reduced prices.

Line Number	Number Purchased	Original Price	Number Sold at Original Price	Reduced Price	Number Sold at Reduced Price
103	2	$27.00	0	.....	.....
104	10	29.75	0	$22.50	6
105	1	31.00	0	.....	.....
106	3	32.50	1	.....	.....
107	3	36.00	2	29.00	1
108	6	40.00	6	.....	.....
109	1	48.50	0	.....	.....
110	1	67.50	0	.....	.....
111	1	87.50	0	.....	.....

All these refrigerators were purchased from the same manufacturer and included two of his brands. Numbers 108 to 111, inclusive, bore the manufacturer's regular brand name. Numbers 103 to 107, inclusive, bore a different brand name, not in any way identified with the other brand. In designing Numbers 108 to 111, the manufacturer had planned to build as good refrigerators of given types as he could, and had priced them in accordance with his costs. Numbers 103 to 107 had been designed

to meet competition; that is, they had been built with a view to selling them at given prices. The two lines differed in three fundamental features of construction, as well as in quality of materials and finish. Numbers 108 to 111 were lined with white porcelain, instead of painted or unpainted galvanized iron; they were iced from the front instead of the top; and they were fitted with cold air flues running to the bottom of the food chamber to provide the best possible circulation of air.

The merchandise manager of the Rowley Company believed that it was too late in the 1922 season to hold a special sale of refrigerators. He decided, however, that it would be advisable for the store to offer a leader early in the 1923 season in order to attract customers to the store. For this purpose he decided that a refrigerator to retail at $19.50 would be satisfactory, provided it had a rated ice capacity of 100 pounds. He placed the price at $19.50 instead of $22.50, the price at which a similar refrigerator was selling well in July, 1922, because he considered that in 1923 consumers would still be looking for unusual values in merchandise.

Accordingly, the merchandise manager instructed the house furnishings buyer to canvass the manufacturers to find a refrigerator meeting his specifications which could be sold profitably at $19.50. The merchandise manager said that line Number 103, which had been carried in 1922, would be suitable, and suggested that the buyer go to the manufacturer of that line not later than August 1, in spite of the fact that refrigerators usually were bought in January for April delivery. The merchandise manager instructed the buyer to explain to the manufacturer that deliveries would be accepted at the manufacturer's convenience at any time up to April 15, 1923.

Following these instructions, the buyer visited the manufacturer and succeeded in obtaining from him a price of $15 each on the Number 103 refrigerator, provided 100 were ordered. The manufacturer said that he would cut the price to $14.50 if the Rowley Company would take 150 refrigerators equipped with brass hinges and door clasps instead of the nickel-plated ones regularly supplied. Furthermore, the manufacturer said that no orders at the prices named would be accepted after August 15, 1922, and that no changes in orders placed before that date could be made thereafter. The regular price on Number 103 for 1922 had been $16.40, and the manufacturer said that he contemplated

no change downward for 1923. In fact, he said, there was some possibility that the price might be raised to $16.75.

Should the Rowley Company have accepted either of the manufacturer's offers?

20. STRICKLAN COMPANY

DEPARTMENT STORE—AUGUST FUR SALE[1]

The Stricklan Company operated the largest department store in its metropolitan area. It sought to meet the demand for medium-price merchandise, which it sold only for cash. During 1927 and 1928 the fur coat department showed only a small increase in sales, whereas the other garment departments on the same floor increased their sales at the substantially faster rate characteristic of the store as a whole. Despite the unsatisfactory trend of fur sales, the company in the spring of 1929 considered discontinuing its practice of conducting an August fur sale, since it believed that the sale was no longer economically justifiable.

While studying its August fur sale problem, the store found that the value of manufactures of fur goods had increased 17.8% during the preceding five years, according to figures of the United States Department of Commerce. During the same period the price of raw skins had increased 40%, although the average of commodity prices had decreased 1%, according to statistics of the United States Department of Labor. Statistics compiled by the Federal Reserve Bank for the district in which the Stricklan Company was located showed a decrease of 10.8% in the sales of fur departments of department stores for the fall season of 1928. While the company had no statistics on the sales of specialty fur shops, it believed that the total number of fur coats sold in its district had decreased during the preceding two years. The company attributed this decrease in the sale of fur coats, in the face of an increase in sales of cloth coats and other ready-to-wear garments, to a growing lack of confidence on the part of the public in the values offered and the methods used in the August fur sales.

When the practice of holding August fur sales was originated in department and specialty stores, manufacturers of fur goods

[1] See case of the Walbourne Company, 7 H.B.R., 510.

were willing to grant price concessions to retailers on furs to be delivered for the August sales, in order to effect sales and thus continue production at an otherwise slack time of year. Thus, the retail stores were able to offer price reductions to customers as an inducement to purchase furs out of the normal season. By 1929, however, the August fur sales had come to be considered a regular part of the fur business, and manufacturers were at the height of their season at that time. As a result, manufacturers' prices were probably as high at the time a store made its purchases for the August fur sale as at any time during the year. It was estimated by one department store executive that manufacturers' prices at this time would drop 25% if the August sales were eliminated. By October, manufacturers were cutting their prices, and the Stricklan Company had learned that its customers could duplicate their August fur purchases two or three months later at lower prices. The company followed the policy of meeting competitors' prices currently; its gross margin on fur coats during the fall season of 1928 had been 32.8%.

While the store sold only for cash, its policy was to hold for customers until the first of November, without deposit, furs bought at the August sale. This practice allowed a customer more than two months in which to prepare for payment of her purchase. On the other hand, it placed the company in a position of having many coats left on its hands when customers found that they could purchase coats in November at lower prices. The merchandise manager of the Stricklan Company believed, furthermore, that autumn styles for fur coats could not be accurately foreseen at the time of ordering for the August sale, with the result that customers who purchased coats in August might find later in the season that their coats were not of the prevailing style. It was not until September that the French style trends could be ascertained fairly definitely and reliable forecasts made of styles in the United States.

Other stores disagreed with the views of the Stricklan Company. Some asserted that 25% of their annual sales of fur coats were made in August. At that time many customers could be persuaded to purchase coats who, if they waited until the regular season and if the winter proved to be mild, might decide not to purchase fur coats. These stores argued that the August fur sale had eliminated the possibility of abnormally low annual sales which, before the August sales were introduced, had occurred

during mild winters. If, as formerly, the stores did not begin their fur sales until October, the season would be only four months long, whereas by beginning the sale of coats in August they secured a six months' season.

Executives of these stores pointed out, moreover, that it was not necessary to stress price in the August sales, since the coats sold then were of better quality than those purchased later and since the person buying in August had the first choice of coats. These executives asserted that while the second lot of fur coats received by a store always was supposed to be of the same quality as the first, actually it never was of so high a grade. Another argument used against discontinuance of the August fur sales was that August was a slack month in a department store. If the August sales were eliminated, these executives did not know what sales event could be substituted advantageously.

The Stricklan Company, however, believed that the style and price factors involved in the August fur sales offset these arguments, at least in so far as its store was concerned. It believed that the quality argument was less important than the argument that styles were not set definitely by August. Although the discontinuance of the August fur sale would shorten the season, it would also prevent manufacturers from unloading their stocks and thus unsettling prices as early as they were then in the practice of doing. Under existing conditions, by the end of September, retailers had replenished their stocks, depleted by the August sale, and the manufacturers were ready to clear out the remnants of their stocks. By November, manufacturers had cleared out their stocks at cut prices, and skin prices also were being reduced. At the same time, retailers were in a slack season, for retail stores sold most of their furs at special sales in August or in January. This condition resulted in price reductions by many small stores; in fact, it had been the experience of the Stricklan Company that customers began making inquiries about clearance sales as early as November. In the city in which the Stricklan Company was located the department stores began advertising their clearance sales of furs about Christmas, and the Stricklan Company's officers estimated that fur sales in January were as large as during the other five months of the season. The city, however, seldom experienced sustained cold weather before January; and the Stricklan Company believed that clearance sales of furs should be delayed until the middle of February. Yet one of the Stricklan

Company's competitors argued that since 65% of its fur business was done in October, November, and December, it was justified in beginning clearance sales in January.

Should the Stricklan Company have discontinued its August fur sale?

21. DUNLOP COMPANY

SPECIALTY FURNITURE STORE—AUGUST AND FEBRUARY FURNITURE SALES

For many years prior to 1929 the Dunlop Company had conducted special sales in February and August. After 1926, however, these sales had appeared to lose much of their popularity with customers. While a larger volume of sales was still made in August than in any other month except October, the company realized that heavy advertising expense, coupled with relatively low gross margins, during the months of special sales had an adverse effect on net profit. In March, 1929, the Dunlop Company considered the discontinuance of the February and August sales.

The Dunlop Company was located in a secondary shopping district about three miles from the main shopping district of a large eastern city. It drew its patronage largely from surrounding suburban areas. Through its advertising and stock assortment it appealed to purchasers of medium- and low-medium-grade merchandise. A small proportion of its stock consisted of merchadise of low grade.

Ninety-five per cent of the store's sales were made on a time-payment basis. The credit terms given a customer depended upon the store's analysis of his credit standing. In the average installment sale, the down payment was at least 10% of the retail price, and the length of time over which payments were extended did not exceed two years. In some instances, however, sales were made with no down payment, and in others four or five years were allowed for the completion of payments. The store delivered merchandise free of charge within a radius of approximately 200 miles. It was open for business on Monday, Thursday, and Saturday evenings.

The company manufactured none of the furniture which it sold; it did not maintain repair, upholstery, or used furniture

departments. Its normal inventory, amounting to from $140,000 to $150,000 at retail, consisted of a full line of furniture and house furnishings, including radio receiving sets. Representative stocks of merchandise were maintained in a warehouse connected with the store, in contrast to the practices of some small competing stores which did not carry their own stocks but either sold from sample, securing the actual merchandise from a wholesaler, or referred customers to wholesalers directly for the selection of the pieces desired. In accordance with the apparent trend in the furniture trade, the company's average inventory had declined over a period of years, and its stock-turn had increased until it was between 4 and 5 times in 1928.

The bulk of the company's purchases were made at frequent intervals. Its buyer attended the furniture exhibitions in Chicago, Grand Rapids, New York City, and Jamestown, and purchased there approximately 25% of the store's requirements of merchandise. Manufacturers' discounts from wholesale list prices amounted to from 2% to as much as 10% for large buyers. Customary periods allowed for payment varied from 30 to 90 days. The company rarely bought from wholesalers; the latter did not hold an important position in the furniture industry. The company attempted to maintain an average gross margin of 45% of sales.

The Dunlop Company's advertising expense was approximately 11% of sales. The store manager considered this figure high and desired to reduce it to 6%. He was of the opinion, however, that in view of competition this could not be done. He knew of similar stores whose advertising expenditure amounted to as much as 16% of sales. Average total publicity expenditures by furniture retailers, including salaries and operating costs in advertising departments, were stated by the National Retail Furniture Association to have been 6.34% in 1927.[1] The store's advertising expenditure was not budgeted, but was distributed throughout the year in accordance with the advertising manager's analysis of general conditions and public receptiveness. Practically the entire appropriation was spent in newspapers. In the store manager's opinion, these represented the best medium for retail furniture store advertising The company advertised in all but two of the newspapers published in the city in which it was located, the exceptions being the one appealing to the highest and

[1] Millis Advertising Company, *Why People Don't Buy Furniture*, page 41.

the one appealing to the lowest income class. Approximately two-thirds of the advertising appeared in the evening papers.

In addition to newspapers, the Dunlop Company used some direct mail advertising, principally in connection with special sales events. Street car cards were employed only when financial assistance was secured from the manufacturer of the merchandise advertised. The company's customary weekly schedule of newspaper advertisements consisted of three to four insertions, one always being placed in a Sunday paper, the superior effectiveness of which had been demonstrated by the company's experience. The advertisements were varied in size. In the Sunday paper, however, they normally occupied approximately 6 columns by 280 lines, and on week days, approximately 5 columns by 225 lines. During the February and August sales, the Christmas season, and weeks when especially attractive values were offered, the company commonly increased the number of its insertions without making any reduction in the size of space. For special events, furthermore, it occasionally employed full pages.

In its advertising, the company attempted to maintain a balance between the appeals of quality and of price. On the one hand, it avoided what it considered an undue emphasis on price, and on the other hand refrained from using the unqualified appeals based on design and quality which it considered suitable for stores selling only the higher grades of furniture. The company's attempt to vary its appeals was manifest largely in the headlines and in the relatively short general copy which appeared at the top of its advertisements. In these positions, it employed as institutional appeals the accessibility of the store, the ample parking space, lack of congestion, and low overhead expense at its location as compared with the city's main shopping district, and the store's convenient payment terms and free delivery service.

Prices were set in odd figures, such as $11.95, $59, and $195, and were quoted with some prominence in all advertisements. The company quoted no comparative prices in its advertisements even during special sales events. Cuts invariably accompanied descriptions of merchandise advertised. In each advertisement were featured specific pieces of merchandise at special prices. For this purpose from two to four suites ordinarily were selected from the store's stock, although the number varied from one to six. The store attempted to appeal, in the selection of these suites, to the purchasers of both the higher and lower grades of

furniture sold in its store. The usual advertisement mentioned, in addition to the selected suites, single pieces of furniture such as rockers, boudoir chairs, and end tables. Infrequently, advertisements were devoted solely to a selection of such single pieces.

The company's net sales in 1928 were $717,000. Although the company had earned a net profit in 1928, both sales and net profits had declined after 1925. Monthly sales during 1928, together with their relation to the average monthly sales for the year, were as follows:[1]

Month	Sales	Percentage of Average Monthly Sales
January	$58,000	97.1%
February	57,000	95.4
March	54,000	90.4
April	39,000	65.2
May	50,000	83.7
June	48,000	80.3
July	60,000	100.4
August	80,000	133.9
September	65,000	108.8
October	81,000	135.5
November	61,000	102.1
December	64,000	107.2

The company considered it logical that there should be a sales peak in the autumn, since people ordinarily were returning from vacations at that time and were thinking of refurnishing their homes. The company's total sales in October, 1928, had been increased substantially by the sale of radio receiving sets, an experience common to the trade as a whole. The large volume of

[1] There was a substantial seasonal variation in wholesale sales of furniture also, as shown by the following table:

INDEX OF SEASONAL VARIATION
WHOLESALE SALES OF FURNITURE

January	88	July	82
February	100	August	102
March	113	September	113
April	101	October	119
May	95	November	105
June	88	December	94

Source: Federal Reserve Board, as reported in *Standard Statistical Bulletin*, 1929–1930 *Base Book*, page 86.

sales in August represented the effect of the special sales event held during that month.

Special store-wide sales were conducted by the Dunlop Company in both February and August; no other store-wide special sales were held. The February sale was of four weeks' duration; the August sale lasted ordinarily about six weeks, from the last week in July until the first in September. The exact duration of the sales depended on the response from customers. The store's August sale began earlier than those of most of its local competitors. The store did not remain open during February and August on any evenings other than the regular days—Monday, Thursday, and Saturday. No additional salespersons, furthermore, were employed for the special sales, although many competitors augmented their salesforces during such sales. In the opinion of the Dunlop Company, temporary salesmen typically were familiar neither with the store nor with its stock, and were likely to give customers unwarranted assurances in an effort to make sales.

For the February and August sales, prices were not changed on radio receiving sets, phonographs, and other nationally advertised products; but reductions from the store's customary retail prices were made on other merchandise in three classifications as follows: An average reduction of approximately 15% was made on the store's entire regular stock of normally-moving furniture. Sharper cuts, averaging 30%, were made in the prices of merchandise of which only a few pieces or suites remained, merchandise which was shopworn or damaged, and articles which were not selling readily. Style obsolescence was a minor factor in influencing mark-downs for clearance. While there were distinct trends in the popularity of the several period designs which were the bases of most furniture styles, the trends operated slowly; and, in general, furniture in all these designs was carried regularly. In addition to reducing prices on its regular stock and on clearance items, the company offered low prices on merchandise bought specifically for the February and August sales. Orders for such merchandise were placed several months in advance, in October and November for the February sale and in March, April, and May for the August sale. These purchases consisted of discontinued pieces or suites and of merchandise produced especially for the sales, on which manufacturers could reduce their prices because they were enabled thereby either to offset a seasonal depression or to utilize idle

manufacturing capacity. These special purchases the Dunlop Company priced at less than its customary mark-up; prices were approximately 15% below the usual figures for similar merchandise.

On the store's total sales volume during the sale in August, 1928, the average reductions in retail price approximated 20%. Gross margins in August, 1928, based on the special sale prices, varied as follows: on total sales, 31%; on clearance merchandise 21%; on the regular stock and on special purchases, 35%.

Ten days prior to the advertising of each of the two special sales to consumers, special notices were sent out to the store's list of previous customers informing them that they might inspect the stock at reduced prices before the public at large was invited to do so. Sales during the week preceding the advertising of the sale to the public were considerably larger than those of any of the remaining weeks.

The copy used in newspapers during the sales emphasized the price reductions. The price of each piece was stated as having been reduced to that quoted. The advertisement for July 21, 1928, announcing to the public the August sale for that year, presented the following copy:

DUNLOP'S MIDSUMMER FURNITURE SALE

DRASTIC REDUCTIONS—AS MUCH AS ½

For Several Months We Have Been Preparing for This Great Midsummer Sale!

Taking advantage of the backward season and prevailing abnormal market conditions, our buyers made purchases at prices which it will never again be possible to duplicate. In addition, we have gone through our entire store and made drastic reductions—in many cases as much as ½ on real Dunlop Quality furniture.

Every Article Bears the Original Price Tag as Well as the Sale Price

So that you may note the large reductions which have been made throughout the store, everything is marked in plain figures—a policy we have always adhered to.

Dunlop's Wide-spread Popularity

Quality and Value are ever our Watchword! The dependability of Dunlop statements has stood the test of half a century. Whatever your purchases, you are assured at all times of buying the Finest Quality merchandise at the lowest possible prices.

CONVENIENT CREDIT TERMS

arranged to suit you. Take a Year and a Half to Pay, if you want to. No interest charges if you pay as agreed.

The company's advertising expenditures for 1928 were as follows:

Month	Advertising Expenditure	Percentage of Sales
January	$ 6,000	10.3%
February	8,000	14.0
March	6,000	11.1
April	4,000	10.3
May	5,000	10.0
June	5,000	10.4
July	7,000	11.7
August	10,000	12.5
September	6,000	9.2
October	8,000	9.9
November	5,000	8.2
December	9,000	14.1
Total for 1928	$79,000	11.0%

In the opinion of the manager of the Dunlop Company, the semiannual sales events, particularly the August sale, accomplished definite and desirable objectives, except in the case of stores in which the reduced prices involved offered no contrast to their regular marketing methods.

In the Dunlop Company's store the February sale apparently had lost, in the course of several years, most of its attraction for the public. The company had reduced its selection of merchandise for that sale and also had curtailed its advertising expenditure. The August sale, while less effective in 1928 than formerly, still accounted for a larger proportion of the year's sales than any other month except October. In the month of February, 1928, the company had shown a net loss, while the net profit in August was smaller than the yearly average.

The policy of conducting February and August sales was closesly related to the generally depressed condition which the Dunlop Company considered to be existent in the furniture trade. According to one estimate, 73% of the furniture retailers in the United States had sustained a net loss in 1928, while the remainder secured an average net profit of 2% of sales. Similar statements generally were made throughout the trade.

Several reasons were advanced for the unsatisfactory condition in the trade: that the productive capacity of the manufacturers of furniture was greatly in excess of that required to satisfy normal

demand; that the competition thus engendered between manufacturers had led to demoralization in pricing and other practices; that competition in the retail sale of furniture was unhealthy, as evidenced by the practices of some stores, a majority of which sold low-price merchandise, in employing undue sales pressure, in using the "turnover system" whereby several salesmen in succession attempted to close a transaction, and in quoting fictitiously low prices in advertising merchandise which the stores did not intend to sell if they could avoid it.

In March, 1929, when the executives of the Dunlop Company discussed the advisability of discontinuing the February and August sales, no special merchandise had been purchased for the sale in August, 1929. The executives were impressed with the favorable experience of some stores in other localities which had reported good results after discontinuing the sales. The company had seen, however, no widespread disposition among the furniture retailers or department stores in its own locality to take such action.

SECTION VI
SERVICE POLICIES

SUGGESTED READING

BEEBE & CHILDS, *Credits and Collections* (Alexander Hamilton Institute, Modern Merchandising Texts, Vol. VIII), Chap. I.

HAHN & WHITE, *The Merchants' Manual*, Chaps. XXXVII–XXXVIII

HAYWARD & WHITE, *Chain Stores* (3d Ed.), Chap. XII.

KNAPP, *Store Management and Business Organization* (Alexander Hamilton Institute, Modern Merchandising Texts, Vol. II), Chap. X.

MAYNARD, WEIDLER, & BECKMAN, *Principles of Marketing*, pp. 614–620.

NYSTROM, *Economics of Retailing* (3d Ed.), Vol. II, Chaps. XVIII–XXI.

Ohio State University Bureau of Business Research, *Merchandise Returns in Department Stores.*

SELIGMAN, *Economics of Installment Selling*, Chaps. IV, VI–X; Apps. 3–5.

1. HILTON COMPANY

DEPARTMENTIZED SPECIALTY STORE—THREE-WAY PLAN OF CHARGING CUSTOMERS FOR CREDIT AND DELIVERY SERVICE

As a result of a suggestion made by the War Industries Board in the interests of economy, on December 1, 1918, the Hilton Company inaugurated the "Three-Way Plan," requiring credit and delivery customers to pay for service rendered especially to them. Under this arrangement three methods of purchasing were available to patrons: cash and carry, whereby the stated retail price was paid; cash and delivery, whereby 10 cents per package for delivery was added to the retail price; and credit and delivery, whereby 50 cents per month for the credit privilege was charged to the customer's account, in addition to the retail price and the charge for delivery. The 50-cent debit for the credit privilege was entered on the customer's account with the first item of each month, and any subsequent entries during the month involved no further outlay on the part of the customer.

This plan, although deemed by the management to be sound in principle, met with such resistance from a majority of the store's customers that reconsideration became necessary.

Packages were sent to the delivery department from wrapping desks situated in various parts of the store. Large departments had individual desks, but several small ones commonly were served by a single desk. A customer who bought in several departments, therefore, might or might not have all her purchases delivered in one package, depending on the location of the wrapping desks of the departments patronized. There were two ways, however, in which clients could be assured that several purchases made during a single visit to the store would be sent in one package, and hence only one 10-cent payment for delivery incurred. The first was to carry all purchases until the final one was made, and then have them all wrapped together. The second was to use a series of coupons, called a "Traveler," one of which was detached by the salesperson and pinned to each article at the time of purchase. All packages with traveler coupons were held in the shipping department until the end of the

day, when each group with the same coupon number was packed together for delivery as a single package.

Customers objected to the charge for delivery because they had become accustomed to free delivery and considered it a service to which they were entitled without additional payment. Both methods of insuring that only one delivery charge was incurred involved elements of inconvenience. The first necessitated that the customer carry her bundles until the final purchase was made; thus packages might be lost if left on a counter while other merchandise was being inspected. The second often delayed delivery until the following day. Some articles sold were of types that necessitated delivery service because of their bulk or weight. Competing stores, furthermore, continued to offer free delivery service to their patrons.

The shipping department reported that deliveries in counts normally reached a high peak during December. A package, irrespective of size, was considered as one count. Extra counts were given for C. O. D. shipments, valuations over $50, and bulk shipments, such as trunks, crates, and baby carriages. Data compiled on the number of counts handled, the total operating cost of the shipping department, and the average cost per count were as follows for December, 1917, and December, 1918:

Number of Selling Days	Number of Counts Handled —Deliveries and Returns	Total Operating Cost of Department	Average Cost per Count
December, 1917, 25.....	91,351	$12,379.00	$.136
December, 1918, 25.....	39,282	11,013.13	.280

These figures showed that deliveries had declined to such a marked extent during December, 1918, that the cost per count had more than doubled as compared with December of the previous year. During the ensuing five months the cost per count was consistently higher than during the corresponding months of the two preceding years.

For these reasons the three-way plan, so far as it affected delivery, was discontinued on June 1, 1919.

Great difficulty had been encountered in the determination of a fair basis for the distribution to customers of the cost of granting credit. The management considered a discount for prompt payment of accounts unfair because it penalized customers who

paid cash at the time of purchase. Adding a charge for credit in the form of a fixed percentage of the retail price placed an unfair burden on high-price articles since there was no appreciably greater expense involved in handling credit transactions in furs than in hair nets. Eventually the average monthly expense of handling credit sales for one year was divided by the average number of monthly bills rendered. This computation indicated that a payment of 50 cents per month by those who used the credit service would cover the expense incurred.

Conflicting sentiments were aroused by the credit service charge. Strong resistance was encountered from a majority of the store's credit customers, who were of the opinion that the retail price should include the cost of this service. During the 10 months that this plan was in operation, cash sales increased by $3,000,000, but credit sales declined by $1,000,000. The management realized that the increase in cash sales might have offset the decline in credit sales, but a large part of the increase in cash sales presumably was attributable to the existing inflation of commodity price levels, and it was impossible to determine whether former credit customers had contributed to the increase of cash sales or whether the accounts that had become inactive represented patronage diverted to competing stores that granted credit freely. The management believed that perhaps dissatisfaction with the monthly credit charge had weakened the competitive position of the Hilton Company. With the decrease in the number of active charge accounts, the income derived from the 50-cent monthly charges was no longer adequate to cover the cost of granting credit.

Therefore, although this part of the three-way plan was considered sound in principle, and endorsements had been received from business men and from a few customers, it was considered an inexpedient policy. The monthly charge for credit service was discontinued in October, 1919, after ten months' trial, in order to strengthen the competitive position of the Hilton Company and to retain the goodwill of its clientele.

Was the management justified in discontinuing the three-way plan?

2. R. H. MACY & COMPANY, INC.

DEPARTMENT STORE—POLICY OF SELLING ONLY FOR CASH

R. H. Macy & Company, Inc., was in 1925 the largest complete department store in New York City. Since the establishment of the store in 1858, the buying public had associated the name "Macy's" with a cash policy inasmuch as the company never had allowed charge purchases. It was stated that this policy made it possible for the company to sell comparable merchandise at the lowest prices in the city. In its advertisements the company always emphasized its ability to retail identical merchandise at prices at least 6% under the prices of competitors.

In order to insure the accuracy of its advertisements, the store maintained a comparison department with from 15 to 20 full-time shoppers. Every morning this department reviewed copies of the advertisements of competitors and immediately sent shoppers to inspect or buy samples of goods which competitors offered for prices equal to or lower than those for which Macy's was selling identical merchandise. The store gave immediate consideration to the claim of any customer that she could buy identical merchandise at a price as low as that charged by Macy's. If investigation substantiated this claim, the company's price on the merchandise immediately was revised to a point at least 6% below that of the competitor in question. In certain lines the company had its own brands, which it stated to be of as good quality as competitors' brands and which it sold at lower prices.

This price policy naturally had brought the company into conflict with those manufacturers of branded and nationally advertised merchandise who sought to maintain resale prices for their products. In several instances these manufacturers had recourse to the courts. All these cases, however, had been defended successfully by R. H. Macy & Company, Inc.; hence there seemed to be no question as to the legality of the company's price policy.[1]

The company always had offered every service given by its competitors except the privilege of charge accounts. In 1902 it had installed a "deposit-account department" to overcome the objections of some customers to the need of carrying cash with them and to the inconvenience of receiving C. O. D. packages. The company required customers served under this plan to have

[1] See case of the Tobal Company, page 341.

on deposit with the deposit-account department sufficient funds to pay for purchases made. Each deposit customer had a number assigned to her account; when purchasing merchandise, she gave that number to the salesperson. If the purchaser took the merchandise with her or had it sent to any address other than that registered in the deposit-account department, her signature was required. The company did not send out merchandise or allow a customer to take out merchandise until her deposit account had been verified and found sufficient to pay for the purchase.

The personnel of the deposit-account department was 50 people. This department was organized separately as a banking firm. It was essentially a service department, maintained at an actual net cost to the store of approximately $1,000 a month. In 1925 the total deposits amounted to approximately $5,000,000. These funds were invested in short term, non-speculative bonds. Deposit-account customers were paid 4% interest on their average balances. In addition, they were paid by Macy's an annual Christmas bonus of 2% of their net purchases for the year. This bonus was not based on any agreement with depositors. It was charged as part of the selling expense of the company.

Of the total sales of the company, approximately 59% were cash sales, 8.5% were deposit-account sales, and 32.5% were C. O. D. sales. Of the total number of transactions, the cash sales were 77%, the C. O. D. sales 18%, and the deposit-account sales 5%.

In 1925 R. H. Macy & Company, Inc., purchased two complete department stores: Davison-Paxon-Stokes, in Atlanta, Georgia; and Lasalle & Koch, in Toledo, Ohio. Among the fundamental issues facing the company executives, on their assumption of control of these two stores, was that of the selling policies to be established. Two alternatives presented themselves: to maintain existing policies as found in each store, or to revise existing policies to conform as nearly as possible to those of Macy's.

Lasalle & Koch had its own delivery service; it operated a restaurant, which was used by the various business and women's clubs of the city; it sold furniture on the installment plan; it had charge accounts; and it maintained a home-furnishing service. Davison-Paxon-Stokes had charge accounts, and it operated a restaurant; but it employed a delivery company instead of operating its own delivery service.

The ratios of charge sales, cash sales, and C. O. D. sales to the total sales of Lasalle & Koch for the years 1921 to 1925, inclusive, had been as follows:

Year	Charge Sales	Cash Sales	C. O. D. Sales
1921	52.6	43.7	3.7
1922	54.7	41.6	3.7
1923	55.6	40.8	3.6
1924	58.4	38.2	3.4
1925	59.7	37.1	3.2

The ratios of charge sales and cash sales to the total sales of Davison-Paxon-Stokes for the years 1921 to 1925, inclusive, had been as follows:

Year	Charge Sales	Cash Sales
1921	52.1	47.9
1922	54.9	45.1
1923	56.9	43.1
1924	59.3	40.7
1925	56.3	43.7

C. O. D. sales were included under cash sales; their total was assumed to be a comparatively small amount.

The business of Davison-Paxon-Stokes had been established in 1900 but had developed slowly because of restricted capital. Lasalle & Koch had increased its business slowly until about 1915, at which time, on entering a new building, it had begun to grow more rapidly. Lasalle & Koch catered to the best trade in Toledo, while Davison-Paxon-Stokes had a high-medium-price trade. The former had a reputation for giving the best service possible; whereas the latter had not been so successful in this endeavor, although the quality of its service in 1925 was showing improvement.

The building of Lasalle & Koch was thoroughly modern; it was located in the best retail district. The Davison-Paxon-Stokes store was an old and inadequate building located in the existing retail district of Atlanta. A building was being constructed for the company, however, in a new retail district between the existing district and the residential area. This new building,

six stories in height, was to be in every way an entirely modern department-store plant.

Lasalle & Koch had to meet the competition of several other department stores in Toledo, none of which, in quality and variety of merchandise offered, in physical equipment, or in service, was of as high a grade. By virtue of aggressive merchandising, not essentially on a price basis, it had far outstripped its competitors. Davison-Paxon-Stokes, however, had not been ably merchandised and was at some disadvantage as compared with several of its competitors in Atlanta.

The financial condition of Lasalle & Koch was entirely sound at the time of its purchase by Macy's. It borrowed largely from the banks, but its credit was excellent. Certain departments had been leased, however, because of lack of capital. Davison-Paxon-Stokes had been handicapped financially by limited credit.

From the time that Lasalle & Koch had moved into its new building, it had been under the personal management of the son of one of the founders; and his aggressive methods had placed the store in its preeminent position in the city. After the purchase by R. H. Macy & Company, Inc., he continued to manage the store without interference, but with such assistance as could be given him by Macy's. Davison-Paxon-Stokes had been managed since its beginning by three partners, two of whom still remained in the store; the third was at Macy's, learning the methods and system of that organization. In addition, Macy's had sent one of its vice presidents and several of its younger executives to Atlanta to reorganize the business of Davison-Paxon-Stokes.

Should R. H. Macy & Company, Inc., have changed the selling policies of the two subsidiary stores to conform to its policy of selling only for cash?

3. BRITTON COMPANY

DEPARTMENTIZED SPECIALTY STORE—INSTALLMENT SELLING OF FURS

The Britton Company operated a departmentized specialty store in one of the principal cities of the Middle West. Inasmuch as the store carried only ready-to-wear merchandise, installment selling had not been deemed necessary. On purchases made dur-

ing its August fur sale, however, the store made some concessions from its usual terms, and in 1929 the question was raised whether the fur department should adopt an installment plan of sale.

The store operated approximately 130 departments, with total sales of more than $10,000,000 in 1928. The store specialized in ready-to-wear clothing and accessories for men, women, and children. It sold no piece goods, furniture, or house furnishings. The greater part of its merchandise was medium-price, and the remainder high-price. The fur department occupied one-third of the fifth floor. The average unit of sale in the department was approximately $200; customers were chiefly of the middle income classes. In the opinion of the executives the furs sold in the company's store were equal in quality to those sold in competing stores at comparable prices. The store's purchases of furs were made in large volume, mostly from the sources which supplied competing stores. The fur department ordinarily yielded a net profit lower than the average for the store as a whole. It was a policy of the store to assure satisfaction to customers; it either refunded the purchase price or gave new merchandise to dissatisfied purchasers. Such adjustments commonly were made on 10 to 15 fur coats during a year.

Approximately 50% of the store's total sales were charge sales, but the proportion for the fur department was much larger. Believing that customers should not be encouraged to purchase more merchandise than they could afford, the Britton Company followed a conservative policy in granting credit. The store's requirements for the opening of an account were reputed to be more rigid than those of many competing stores. It was necessary for persons desiring charge accounts with the Britton Company to fill out an application for credit, stating existing and previous residence, name of husband or wife and of nearest relative, business address, and bank and store references. The Britton Company required that an applicant have a fairly substantial bank account before opening a charge account, whereas some stores merely required that the applicant be employed. The Britton Company, furthermore, always investigated applicants' references before granting credit.

The company's collection policy was no more strict than were the policies of other stores. Charge accounts were due within 30 days of the date rendered. Accounts unpaid at the end of six months were classified as "suspense" accounts. These were

handled by the company's collection agents and attorneys. The store granted no discounts on purchases except to its employees, who were given a discount of 20%, and it charged no interest on accounts unless paid by promissory notes. Several competing stores which were more lenient in granting credit charged interest on customers' overdue accounts.

Sales in the fur department ordinarily were subject to the company's regular payment terms. At the customer's option, however, charge account purchases during the annual August fur sale might be charged on the November bills, which were payable in January. During this sale, furthermore, it was possible for responsible persons who did not have charge accounts with the store to arrange with the credit manager to make installment payments over a period not to exceed six months. During the August sale, over 90% of the purchases of furs were charged; less than 5% were made for deferred payments; and the remainder were made for cash. The store occasionally referred to the possibility of this longer extension of credit in its advertisements for furs. The prices for furs were sufficient to cover the cost of carrying the accounts, and no extra charges were made to customers who used the deferred payment plan.

A customer who had no charge account but sought to arrange deferred payment terms on the purchase of a fur coat during the August sale was required to interview the credit manager. The latter was authorized to grant such terms, never to exceed six months. Although the customer filled out an application blank, the credit manager did not base his decision entirely on the facts given therein, but took into consideration also the personal appearance and apparent character of the applicant. Customers with charge accounts might defer paying for their August fur purchases until January without consulting the credit manager.

The following instance was typical of an application for credit made by a customer without a charge account during an August fur sale: Mr. K., of Polish birth, resided with his wife and two children in a good residential suburb within 15 miles of the city. He was a foreman in a factory and received a salary of $45 a week. He stated that he owned real estate and a Ford automobile, and that he had an account at a local bank. Mr. K. desired to purchase a $395 fur coat for his wife and asked to be allowed to pay for it in installments extending over a three-month period. When asked why he desired this particular coat, he stated that his wife

was careful of her clothes and that the coat selected would last her at least ten years, whereas a cheaper coat would wear only half as long. Mr. K. appeared to be honest. Upon inquiry at the bank, the credit manager found that he had $105 in cash and a $1,400 equity in his house. The assessed value of the property was $3,000. Mr. K. had no charge accounts. After further questioning, the credit manager found that Mr. K. did wood-carving and inlay woodwork at home during evenings and that there was a considerable demand for this type of work. Although the credit manager had some doubt as to Mr. K.'s ability to pay, he agreed to extend the privilege of paying for the coat within three months, provided Mr. K. made an initial payment of $50. Mr. K. accepted this offer and paid for the coat according to the agreement.

The Britton Company was familiar with the credit terms allowed by competitors. On sales of furs, most competitors used some form of deferred payment plan. One plan, for instance, was that of the Morton Company, operating a department store which sold medium- and high-price furs. In 1925 the Morton Company had adopted for its fur department a budget plan, applying to merchandise priced at $50 or over, which required a down payment of 10% of the price and the balance in nine equal monthly payments. To secure these terms, a customer had to give satisfactory references indicating stability of employment and salary and the possession of a fairly substantial bank account. Sales in the Morton Company's fur department unquestionably had increased as a result of the adoption of the budget plan. This company also made use of the budget plan in other departments, such as those selling radio sets and household appliances. Losses from bad debts on all installment sales were stated to be less than 0.01% of these sales.

Another plan, used for more than five years by the Carster Company, a women's specialty store which sold medium-price furs, required a down payment of 10% of the price of the merchandise and the balance in nine equal monthly payments. Beginning in 1928, furthermore, the Carster Company had allowed customers who purchased furs during its August fur sale to pay 10% down and the balance in nine equal monthly payments, the first of which was not due until November. Any fur piece priced above $49.50 or any cloth coat with fur trimmings selling at $100 or over could be bought on this plan if the customer fulfilled satisfactorily two of the three following requirements: stability of position and reasonable salary; satisfactory bank references; ownership of real estate. The credit manager of the Carster Company stated that the fur department undoubtedly had increased its sales by using the budget plan. A majority of purchasers of furs from the Carster Company made use of its budget plan. Losses from bad debts on fur accounts were less than 0.5% of fur sales.

Still another deferred payment plan was used by Rex Furriers, Inc., a large retail fur store selling medium- and high-price furs. This store offered customers membership in its Fur Club or permitted customers to open charge accounts for 30, 60, or 90 days. Customers could join the club at any time with or without making a deposit on merchandise purchased. They could take the merchandise at the time they purchased it or have it delivered later. A customer could select a fur coat in the summer and receive 6% interest on all payments made on it until the coat was delivered to her in the winter. No interest was granted on payments for merchandise after it was taken out of the store. An official of the store stated that there were no definite requirements for joining the Fur Club. An applicant for membership was asked her name, address, place of employment, and length of time of employment. It was a policy of the store not to investigate personal or bank references, and the executives of the store made their decisions as to whether or not to extend credit to a customer on their own estimates of the customer's ability to pay.

Should the Britton Company have adopted a plan of installment selling for its fur department?

4. WERLIN COMPANY

SPECIALTY JEWELRY STORE—INSTALLMENT SELLING

In July, 1929, the general manager of the Werlin Company's retail jewelry store was asked by a representative of the Sterling Silversmiths' Guild to adopt a deferred payment plan devised by the Guild for the retail sale of sterling silverware. The Werlin Company sold medium-price merchandise. The general manager estimated that 60% of the company's customers were from families having incomes between $2,400 and $3,600 a year. The remain-

der of the customers were divided fairly evenly into income classes above and below that group.

For several years the annual sales of the Werlin Company, including receipts from repairing, had exceeded $1,000,000. Total sales were divided among departments approximately as follows: diamonds and precious stones 36%; costume jewelry 21%; sterling and plated silverware 20%; watches 13%; clocks 4%; and miscellaneous merchandise, including chinaware and glassware, 6%. Charge sales were 45% of the total sales, and cash sales were 55%. Monthly collections on charge accounts averaged 55% of accounts receivable outstanding at the first of the month. Losses from bad debts over a period of several years had ranged between 0.2% and 0.35% of annual sales. In 1928, operating expenses were approximately 32% of net sales and repairing receipts, while net gain was between 7% and 8%.

The Sterling Silversmiths' Guild had been organized in 1919 by 12 large manufacturers of sterling silverware for the purposes of maintaining high standards of craftsmanship and of promoting the sale of sterling silver products. Some of the Guild members manufactured plated silverware in addition to sterling. The Guild, although it had advertised to some extent for the purpose of educating people in the use to sterling silverware, in 1929 was generally unknown to the public. About 50% of the sterling silverware sold by the Werlin Company was purchased from members of the Guild.

The Sterling Silversmiths' Guild planned to ask a selected list of high-grade jewelry stores to enter into the proposed purchase plan and had designated the Commercial Credit Company, which had branch offices throughout the United States, to finance sales under the Guild purchase plan. The Commercial Credit Company financed the installment selling of several leading automobile and radio manufacturers. Before a jewelry store could undertake the sale of merchandise under the Guild purchase plan, it would have to submit to the Commercial Credit Company for approval a complete statement of its assets and liabilities. The Werlin Company's application was certain to be accepted if presented. After approval of its application a store would enter into a contract with the Commercial Credit Company; the Contract specified the details of procedure and included these provisions:

> We, the retailer, hereby directly and unconditionally guarantee that every acceptance and every payment due thereon will be paid by the purchaser or debtor named therein in full when due in accordance with the terms of said acceptance, and that in the event of breach of the foregoing, we will pay the entire balance owing on any such acceptance together with interest thereon at the highest legal contract rate and any attorneys' fees, court costs, and other expenses paid or incurred by you to obtain or enforce payment or in attempting to obtain or enforce payment of any acceptance purchased hereunder, or in repossessing or attempting to repossess merchandise covered thereby, either against the debtor, us, or any of our guarantors or in the prosecution or defense of any action or concerning any matter growing out of or connected with the subject matter of this contract.
>
> You and any persons you may designate shall have the right at all times to examine our books and records relating to acceptances assigned to you and all collections thereon.
>
> Either of the parties hereto shall have the right at any time upon written notice to cancel this agreement as to future transactions.

The Guild purchase plan could be applied only to purchases amounting to $100 or more, and payments had to be completed within 10 months. According to the plan, a customer made an initial payment in cash of 25% of the price of the silverware purchased, and paid the remainder plus a carrying charge in equal monthly installments. The carrying charge varied from 5% of the unpaid balance, for payments to be completed in 6 months, to 7% for a 10 months' period. The customer signed a conditional sales contract covering the total unpaid balance. According to the terms of the contract, the title to the silverware remained with the store until the customer completed the installments. The store retained the down payment and received 90% of the remainder of the cash price from the finance company as soon as the store deposited the contract with that company. The customer made payments to the store, which transmitted payments on all accounts to the finance company twice a month. From the final payment, the store deducted the final 10% of the remainder of the cash price due the store. The Guild suggested that retailers make an additional charge of $5 on sales up to $500, and a charge of $10 for larger sales, to cover the cost of collection. The general manager of the Werlin Company was confident that these charges would cover collection costs and that customers would pay the charges willingly.

The average value of a sales transaction in the sterling silverware department of the Werlin Company was between $15 and $20. Because of the relatively high cost of sterling silverware, most people hesitated to purchase at one time complete sets of such

articles as table silver and toilet accessories. In preference to having incomplete assortments of sterling silverware, many customers purchased complete assortments of plated ware. The company estimated that 90% of its sales of sterling products were intended for gift purposes. Annual sales of sterling hollow ware and flat ware from 1923 to 1928 had been as follows:

	Hollow Ware	Flat Ware
1923	$62,900	$65,500
1924	65,100	61,300
1925	68,500	67,900
1926	67,400	57,000
1927	66,000	59,000
1928	58,000	57,000

Practically all charge sales made by the Werlin Company were on 30-day accounts. From time to time, however, the company had allowed customers longer periods in which to complete payments, especially when the sales involved were for large amounts. This practice was followed by all the jewelry stores in the city. The granting of credit was based on the experiences of other stores with the applicant as reported by a local credit clearing house. If records were not available, the credit manager made his own investigations of applicants' credit standings. No specific requests for installment terms on silverware had been received from customers.

The increase in the use of various types of installment selling during the previous few years for many kinds of merchandise, such as automobiles, radio sets, pianos, electric washing machines, and electric refrigerators, led the general manager to believe that similar payment plans might be acceptable for the sale of sterling silverware.

When the general manager interviewed executives of other stores in the city regarding the Guild purchase plan, he found that several jewelers showed much interest in the plan, but that none of them had decided to undertake it, for the stated reason that the plan could be used only with products made by members of the Sterling Silversmiths' Guild. The general manager believed, however, that these jewelry stores hesitated because none wished to be the first to adopt the plan. It was said that many people associated installment selling of diamonds, precious stones, and

watches with retail stores of poor reputation; and if the Werlin Company extended installment selling to those articles its reputation for reliability might be affected. Several department stores, however, offered deferred payment plans to purchasers of silverware and of diamond rings.

Should the Werlin Company have undertaken the sale of sterling silverware under the Guild purchase plan?

5. CARBERRY COMPANY

DEPARTMENT STORE—DELIVERY POLICY

The Carberry Company operated a large department store in the central shopping district of Boston. It sold medium-grade and high-grade merchandise, and about one-half its sale were made on charge accounts. Approximately 40% of its sales were delivered to customers. The store, through its service manager, attempted to solve problems respecting the delivery of merchandise as nearly as possible on the basis of convenience to its customers. Although this policy sometimes meant the granting of unreasonable requests from customers, the service manager had decided that the store could not afford to be less lenient than competing stores in this respect.

The company's rules governing deliveries were affected by type and value of merchandise, distance of delivery point, size and weight of package, and special services requested by customers. These rules, as listed on a form sheet designed for reference by the store's selling personnel, were as follows:

1. All purchases that can be shipped complete in one parcel by parcel post will be delivered free anywhere in the United States.

2. All purchases, including house furnishings, without any restrictions whatever will be delivered free anywhere in Massachusetts. All furnishings except house furnishings will be delivered free anywhere in New England. Purchases of house furnishings amounting to $2.50 or over will be delivered free anywhere in Maine, New Hampshire, Vermont, Rhode Island, and Connecticut.

The words "house furnishings" as used above mean furniture, china, glassware, pictures, lamps, hardware, and kitchen goods.

We reserve the right to deliver by freight, parcel post, or express. Freight delivery means to the freight station and not the home.

3. If customer requests free delivery on a purchase not covered by paragraphs 1 and 2, and the amount of the sale is $100 or more, call

your superintendent, who will get in touch with Mr. Blank's office for a decision.

4. In cases of parcel post shipment when customers ask that parcels be sent special delivery or with a special handling stamp, this charge shall be borne by the customer. Exceptions to this rule are to be made only by Mr. Blank's office. The new rates now in effect are as follows:

Special Delivery.

This service not only transports the package as first class mail, but delivers it to customer's house by special messenger.

This is the quickest service by parcel post, as it also includes special handling.

This service costs:

For Two Pounds or Less	15 cents
Over Two Pounds and Not Over Ten Pounds	25 cents
Over Ten Pounds	35 cents

Special Handling.

This service merely transports the package as first class mail matter, does not deliver it specially at the other end, but delivers it as first class mail.

This service costs:

For Two Pounds or Less	10 cents
Over Two Pounds and Not Over Ten Pounds	15 cents
Over Ten Pounds	20 cents

The above charges are in addition to the regular postage.

The new air mail rate as of August 1, 1928, is 5 cents for the first ounce, and 10 cents for each additional ounce or fraction, and the weight limit is the same as for other parcel post shipments.

Air mail packages are handled in the mailing department the same as special delivery and special handling, but must be plainly marked "Air Mail."

The store maintained its own fleet of trucks, which delivered to most of the surrounding towns within a region roughly limited by Marblehead, Neponset, Milton, and West Newton. For delivery to the suburbs not reached by the company's trucks and to the suburbs outside the radius of the company's own trucking operations, it used the Boston Clearing House Parcel Delivery. This delivery agency, which was operated jointly by a number of the retail stores in Boston, delivered as far as East Boston, Quincy, Wellesley, and Lexington.

For deliveries to more distant points the company used parcel post, express, and freight. Parcel post was ordinarily the quickest and cheapest means for delivering packages which fell within the weight and size restrictions set by the post office department. It was used for the majority of distant deliveries. For larger

packages, express was used when the need for quick delivery offset the amount by which express charges exceeded freight charges. Freight was used for the heaviest merchandise and for lighter parcels when speed was not essential.

All together 60 trucks were operated by the company. Of these, 38 were assigned to the delivery of ordinary parcels, 11 to the delivery of furniture, 6 to the activities of the upholstery department, and 5 for the use of the home furnishings department. The trucks in the last group were used by the outside-sales department to assist in the installation or demonstration of vacuum cleaners, washing machines, and similar merchandise.

Shipments beyond the areas in which free deliveries were allowed on the various classes and values of merchandise usually were sent by freight or express with transportation charges collect. In some instances, however, the store agreed to pay part of the cost of such deliveries. The authority for decision in all such exceptional cases rested with the service manager.

C. O. D. merchandise was delivered by parcel post or by the company's trucks or by those of the Clearing House. The company accepted orders for merchandise on a C. O. D. basis only when the customer made a deposit of 10% of the retail value of the article, or a minimum payment of $1; floor superintendents were allowed to waive the rule in individual cases, however. This restriction had curtailed greatly the returns by customers of C. O. D. merchandise.

Some years previously, the Carberry Company, together with other Boston retail stores, had experienced losses because of the failure of delivery companies to remit the proceeds of C. O. D. sales. This situation had constituted one of the reasons for the establishment of the Clearing House Parcel Delivery. Subsequently the expressmen in Boston had formed the Expressmen's League, a joint organization with a high standing for integrity, which had served to improve the position of this group so far as the fraudulent appropriation of stores' funds was concerned. A group of retail stores had joined the Expressmen's League as honorary members. From their dues a certain percentage was set aside in a fund known as the Expressmen's League C. O. D. Guarantee Fund. In June, 1929, the fund approximated $5,000.

The store stated that no serious complaints from customers with respect to delivery had been received since the establishment in 1926 of the rules providing for free delivery anywhere in the

United States by parcel post, and in general for the free delivery of merchandise costing $100 or more in relatively distant localities.

The Retail Trade Board, a division of the Boston Chamber of Commerce which had been organized to secure the cooperation of the city's retail stores in establishing desirable uniformity of policies, had formulated a group of rulings with respect to delivery. These rules were as follows:

1. All purchases that can be shipped complete in one parcel by parcel post may be delivered free anywhere in the United States.
2. All purchases, including house furnishings, without any restrictions whatever, may be delivered free anywhere in Massachusetts. All purchases except house furnishings may be delivered free anywhere in New England. Purchases of house furnishings amounting to $2.50 or over may be delivered free anywhere in Maine, New Hampshire, Vermont, Rhode Island, and Connecticut.
(The words "house furnishings" as used above mean furniture, china, glassware, pictures, lamps, hardware, and kitchen goods.)
3. Purchases amounting to $100 or more in value may be delivered free anywhere in the United States by any method at the discretion of a designated store executive.
4. In cases of parcel post shipment when customers ask that parcels be sent Special Delivery (10¢) or with a Special Handling Stamp (25¢) this charge shall be borne by the customer. Exceptions to this rule may be made only by a designated store executive.

The Carberry Company had assisted in the development of these rulings and by its signature had agreed to observe them. The rulings had proved so fair to customers that little competition existed among the retail stores in Boston in extending either the distance or the price and merchandise classifications within which free deliveries were made.

Did the Carberry Company follow a sound policy in adhering to the delivery policies formulated by the Retail Trade Board? Should it have sought to effect any changes in these policies?

6. SEARS, ROEBUCK & COMPANY (C)

DEPARTMENT STORE CHAIN—DELIVERY TO CUSTOMERS

By 1929 the mail-order house of Sears, Roebuck & Company had established a chain of retail stores in various sections of the United States. These stores were operated by a separate division of the company; the retail store division was coordinated, however,

with the mail-order division. The company appealed chiefly to buyers of medium-price merchandise. The company's low competitive prices were largely contingent on its ability to keep operating expenses at a minimum. The policy of refusing credit to customers helped to gain that objective, as did also the policy of discouraging requests for delivery of merchandise.

Consumers, apparently aware of the company's policy of selling good quality merchandise at low prices, ordinarily did not expect delivery service from its stores. Most of the stores were outside the main shopping districts of the cities in which they were located, and purposely had been so situated as to be readily accessible by automobile. Many of the stores' customers, taking advantage of this accessibility, drove to the stores and carried away their purchases, even those consisting of large and heavy merchandise such as tires and refrigerators. The prices quoted in Sears, Roebuck & Company's mail-order catalogue included delivery charges on all items; those of the retail stores included delivery costs only on parcel post packages. When necessary, on merchandise falling outside the parcel post classification, the retail stores offset by a reduction in price any discrepancy between their delivered prices and those of the mail-order catalogue.

For management purposes, Sears, Roebuck & Company had partitioned the United States into large areas termed regions. One "A" store in each region was designated the "control" store. In it were located the executives who supervised the activities of the entire region.

In one of the company's stores the customer could order any article shown in the mail-order catalogue but not stocked by the store. Such orders were referred to the nearest control store, from which shipment was made. Orders received by a store for delivery to some point in another region also were transmitted to the control store.

In June, 1929, the company was operating 29 stores of all classes in what was known as its New England region. This region included all the New England states and extended as far west as Syracuse, New York. The company's "A" store on Audubon Road, Boston, which had been opened in September, 1928, was the control store for the New England region and housed the branch and warehouse of the mail-order department for that mail-order district. To individual customers this store sold only for cash or cash on delivery, except that installment payments

were arranged for some high-price articles such as washing machines. For reputable business firms which purchased from Sears, Roebuck & Company 30-day commercial accounts were arranged.

The "A" store in Boston made free delivery by parcel post only on purchases of such size and weight as fell within the parcel post regulations. On all other purchases deliveries were arranged at the customer's option, but a charge amounting to the actual cost of the delivery was added to the customer's bill. In the opinion of the store manager, the delivered price of merchandise, including cost of delivery, ordinarily remained lower than that set by competing stores. Of the merchandise which was too large or too heavy to be sent by parcel post, the largest proportion was delivered by truck. The heaviest and bulkiest goods, such as stoves, bathtubs, and fencing, were delivered by truck to nearby purchasers and were sent by freight to more distant points. Express service was employed when specified by the customer. Of its total number of sales the "A" store in Boston estimated that 25% were delivered, 18% being sent by parcel post, 5% by truck, and 1% each by freight and express.

This store did not own any delivery trucks but contracted for delivery by truck with a large company whose service extended as far north as Portland, Maine, as far west as Pittsfield, Massachusetts, and as far south as Bridgeport, Connecticut. Intervening towns were reached by means of the trucking company's transfer stations. On account of its large volume of business, Sears, Roebuck & Company secured from the trucking company a relatively low rate for deliveries. The specific charges made by the trucking concern to Sears, Roebuck & Company, and in turn passed on to the company's customers, were based on zones radiating from Boston at 50-mile intervals.

The store's internal organization for shipping merchandise consisted of a central delivery department in the basement, to which were sent the articles to be delivered and the sales checks. The delivery department packed the merchandise and made the necessary records. Trucks of the delivery company and of the express company called at the loading platform; in the store's basement was a branch post office which accepted parcel post packages; and freight cars were brought to the store's loading platform over a spur track.

Arrangements for the payment of cash on delivery were available through any one of the four means of transportation. The

store's C. O. D. sales were estimated to be not more than 0.5% of its total sales. Although the store required no deposits from customers on C. O. D. sales, returns of merchandise sold on that basis were negligible.

Should Sears, Roebuck & Company have made any changes in its terms of delivery to customers?

7. FOUR SQUARE COMPANY

GROCERY CHAIN—DELIVERY SERVICE

In the fall of 1927 the Four Square Company, operating a chain of 468 retail grocery stores in a metropolitan city and its suburbs, was giving delivery service in certain of its stores and faced the problem of expanding or contracting this service.

Both staple package and bulk groceries were sold. The stores of the Four Square Company were well distributed over the city, so that they sold to all classes of consumers. Merchandise, with the exception of a few perishables, was delivered to the stores from a central warehouse. Sales of the typical store ranged between $21,000 and $28,000 a year. Each store manager was paid a salary and a commission on sales, together with a yearly bonus based on the net profit of his store. The company's total salary and wage expense, including all executive and administrative salaries, averaged from 9.5% to 10% of net sales.

Following are abbreviated profit and loss statements of the Four Square Company for the fiscal years ending June 30, 1926, and June 30, 1927:

	1925–1926	1926–1927
Sales	$8,349,000	$9,840,000
Cost of Sales	6,504,000	7,750,000
Gross Margin	$1,845,000	$2,090,000
Total Operating Expense	1,599,700	1,820,040
Net Profit	$ 245,300	$ 269,960

In the city where the Four Square Company operated, competition among grocery chains was even more intense than competition between chain grocery and unit grocery stores, and

there had been a tendency for the chain stores to deviate from a strictly cash-and-carry basis. Many stores were giving some degree of delivery service; some were taking telephone orders; and in a few cases store managers, acting entirely on their own responsibility, were extending credit to certain of their customers. Although the Four Square Company was regarded as foremost among local grocery chains in the matter of giving delivery service, it did not feature this service in its advertising and made deliveries only when requested by customers. In 275 of its stores the company provided telephone service. The stores which did not give telephone service were the newly established stores and those located in the poorer districts, where customers were not in the habit of using the telephone to order groceries.

None of the Four Square Company's stores extended credit to customers. Orders taken by telephone were delivered C. O. D., and there was no limitation on the size of orders. At the time the order was taken over the telephone, the customer was asked how much change the delivery boy should bring with him. This practice not only prevented misunderstanding as to method of payment but was said to speed up delivery, since the manager was able to anticipate any difficulties in making change.

Some of the officers of the Four Square Company had been of the opinion that telephones interfered with service in the stores because customers were neglected while the store manager answered the telephone and wrote down orders. Telephone service, furthermore, cost from $4.50 to $7.50 a month per telephone, according to the kind of service and number of calls made. In 1925 by way of experiment the company had taken out the telephones in 100 stores; but, with the removal of these telephones, sales had dropped off so materially in 20 stores in the better districts, where a large telephone clientele had been built up, that the management had promptly restored the telephones in those stores.[1] In the stores where removal of the telephones had not substantially reduced sales, telephone service was discontinued permanently. The Four Square Company did not substitute house-to-house solicitation of orders for telephone service.

[1] In 1925 the National Wholesale Grocers' Association carried on a "Phone for Food" compaign in the interests of stimulating retail trade in the unit stores. A survey made by the Association showed that 50% of the housewives interviewed ordered groceries by telephone.—See *Bulletin* of the National Wholesale Grocers' Association for the year 1925, especially the November, 1925, issue.

In most of the Four Square stores the managers were able to hire boys at $5 to $7 a week to work about the store and deliver groceries in the afternoons and on Saturdays by bicycle or by pushcart. For 30 stores, however, located in the better residential districts, automobile delivery trucks were in use. These stores were equipped with telephones. The expense of a truck and a driver averaged $40 a week. Sales in the stores served by trucks averaged approximately $1,000 a week. The cost of the delivery and telephone service which the Four Square Company maintained was between 1% and 1.5% of total net sales for the chain. A truck driver ordinarily acted as a salesman in the store when he was not delivering, except in instances where two stores were so near together that one truck could serve both. In that case the full time of one driver was taken up in delivering. The company had not extended its truck delivery service to the poorer districts, for consumers in such districts seemed more willing to carry home their purchases and were satisfied with an intermittent delivery service.

Although the Four Square Company had secured increased sales volume in the districts where trucking service was given, inventory shortages had been greater in those stores. The company had not contemplated establishing a centralized delivery system.

Should the company have extended its delivery system to include trucking service for all its stores? Should the company have featured delivery service in its advertising?

8. ELDORADO COMPANY

GROCERY CHAIN—ADDITION OF SELF-SERVICE STORES

In the spring of 1929 the Eldorado Company considered opening self-service stores instead of the counter type of stores which in most instances it had operated in the past. At that time the company operated about 2,000 stores in the Middle West and Far West with total sales of $100,000,000, and it was gradually increasing the number of stores. In 1928 the company had a gross margin of 18.3% of net sales and expenses of 14.6%. All the stores sold groceries, vegetables, and candy; and some sold meat in addition.

In the counter type of store, merchandise was displayed on shelves back of counters, which usually extended along the side walls and the rear of the store. Clerks took customers' orders, secured and wrapped the merchandise, and received payment. Special merchandise was displayed on the counters. Sufficient space was left in the center of the store to accommodate customers. If a meat market was operated in the same store, it usually took the place of the counter along one side. If vegetables were sold, they were at one side near the entrance in smaller stores, and in the center in larger stores.

In a self-service store, customers waited on themselves. The merchandise was displayed on shelves between which were aisles for customers. Similar groceries were grouped together; the price of each article was clearly marked. Customers entering the store passed through a turnstile inside the door. Just beyond the turnstile was a pile of baskets for customers to use in carrying the groceries they took from the shelves. At the exit was a counter where an employee, called a checker, was stationed. Vegetables usually were placed next to the checker's counter. In most stores the checker had only one assistant, a stock room clerk, whose duty it was to keep the shelves filled.

When a customer had completed her selection of groceries she stopped at the counter of the checker, who removed the merchandise from the basket, wrapped it, and received payment. During slack periods he carried the groceries out to a customer's car if requested. It was also his duty to direct customers to merchandise which they could not find. During busy periods the assistant aided the checker by computing the total price of merchandise and wrapping it. In larger stores there were more employees, and these various duties were distributed among them as the occasion required. In a store operating a meat market, the latter was separated from the grocery department by a railing, and salesmen were employed to wait on customers.

Three or four years earlier the Eldorado Company, which had originally been established on the personal selling or service basis, had commenced to experiment with self-service stores. A few competing chains were operating self-service stores, but more of them operated counter-type stores. As a result of its experiments the company concluded that one type of store had little advantage over the other. The costs of operating both types were about the same, and the company had followed the practice of

selling merchandise at the same price in both types of store. Salesforce expense, furthermore, was practically as high in a self-service store as in a service-type store. The company had found, however, that two men could operate on a self-service basis a store that was slightly too large for them to operate on a service basis. A large service store would employ eight clerks, for instance, while one less clerk would be needed in a self-service store of the same size. The minimum number of employees in any store was two. The company believed that one man could not operate a self-service store and perform effectively the duties of checking the merchandise sold and keeping adequate stocks on the shelves.

The executives of the Eldorado Company recognized, however, that there was at least one advantage in the self-service type of grocery store, namely, the ability to take care of peak sales without increasing the number of employees. For instance, stores usually experienced a Saturday afternoon peak of sales. Experience had shown that for short periods during the day two men in the self-service type of store could attend to several times as many customers as could two men in a service store. In a self-service store the employees could make sure that the shelves were well stocked during the slack hours, and spend practically all their time at the checking counter during busy periods. This flexibility eliminated the necessity of hiring part-time employees in the self-service stores. The company believed that merchandise could be promoted as effectively in a self-service store by means of suitable displays as in a service-type store. Ordinarily, new merchandise did not need more explanation than could be given by means of special displays and advertisements. In the case of special merchandise which required demonstration, a special demonstrator was sent from store to store in either service- or self-service-type store. The company had concluded that losses from theft were slightly higher in a self-service store than in the counter-type store but that these losses were probably offset by the savings in salesforce expense.

While the executives had been able to see little advantage in the self-service store from the company's standpoint, they believed that customers had a distinct preference for the self-service type of store. This opinion was based chiefly on the following experience: During the third quarter of 1928 the company had opened a self-service-type store in a public market next to a counter-type store which it had operated for some time.

This public market was located near the center of the city and comprised grocery and vegetable stores and meat markets. The two stores which the Eldorado Company operated were separated only by a wire screen. The sales of the self-service store during the last quarter of 1928, the first entire quarter of its operation, were $7,000 larger than those of the counter store. The stores offered the same advantages so far as convenience and display were concerned. Both stores charged the same prices and sold identical merchandise.

The expenses and other operating statistics of the two stores were as shown in Exhibit 1. The executives believed that these stores were fairly typical of the two types of stores in that district.

EXHIBIT 1

ELDORADO COMPANY

Comparative Statement of A Counter Store and A Self-service Store
October, November, and December, 1928
(Net Sales = 100%)

	Sales	Number of Customers	Salaries	Total Expense*	Gross Margin†	Net Profit
Counter Store..	$29,000	47,000	$1,400	$3,200	18.9%	8%
Self-service Store.....	36,000	51,000	1,400	3,100	19.0	10

* Including prorated indirect expense.
† The variation in gross margin was accounted for by the sale of more high-margin goods in the second store. The same mark-up on the same type of merchandise was obtained in each store.

What policy should the Eldorado Company have adopted with respect to the opening of self-service stores?

9. ORNABY COMPANY

DEPARTMENT STORE—CHARGE FOR ALTERATIONS IN READY-TO-WEAR DEPARTMENTS

The Ornaby Company operated a department store which had sales of several million dollars annually.

The department and specialty stores in the city in which the Ornaby Company was located had agreed to make no free alterations on women's ready-to-wear garments. The Ornaby Company was a party to this agreement. Alteration prices, however,

were not specified in this agreement. The Ornaby Company did not carry men's and boys' clothing. Among most of the stores in the city which did sell men's and boys' clothing it was not the practice to make any charge for alterations.

The executive who had been placed in charge of alterations in February, 1921, had kept records of alteration-room expenses, charges to customers, and losses, by months from that date to 1924. Because of the increasing losses shown by the alteration room during that period, he desired to increase alteration prices 25% to offset partly the operating losses. By increasing prices, the Ornaby Company would depart from its policy of basing alteration charges principally on the prices charged by competitors for similar work.

The alteration department was regarded both as a service and as a merchandise department. As a service department, it was not charged with overhead expenses. As a merchandise department, it was supposed to earn a discount of 6% on purchases of material outside the store.

Receipts from customers for alteration work were credited to the various departments concerned. The costs of operating the alteration department, allocated on an estimated time basis, were treated by the various selling departments as part of their total merchandise costs rather than as an operating expense. The alteration department occasionally performed services for selling departments within the store, such as pressing and basting, before the merchandise was sold. Each of these jobs was charged at a fixed price to the selling department requiring the service.

The scale of prices charged customers for alterations was based on the charges made for similar work by competing department and specialty stores. The Ornaby Company had not initiated changes in alteration prices, but had followed other stores in price changes. In 1924 the alteration price scale was as shown in Exhibit 1.

These prices were the total charges for alterations and included the charges for fitting. The prices were quoted to the customers only by fitters, who could reduce prices upon securing the consent of the superintendent of the alteration room.

Between February, 1921, and February, 1924, alteration prices to customers had been increased approximately 10%, which was less than the increase in the cost of operating the alteration department. During the fiscal years from February, 1921,

EXHIBIT 1

ORNABY COMPANY

Scale of Prices for Alterations, 1924

Operation	Charge
Suits	
General Alteration	$6.00–$8.00
General Alteration on Jacket Only	4.00– 5.00
General Alteration on Skirt, Top and Bottom	3.50– 4.00
Top of Skirt	2.00
Bottom of Skirt	2.00
Shortening Sleeves	1.50– 2.50
Piping Buttonholes	.50
Padding Shoulders	1.00– 1.50
Shortening Coat	2.00
Skirts	
Top of Skirt	2.00
Bottom of Skirt	2.00
Top of Plaited Skirt	3.00
Bottom of Plaited Skirt	3.00
Top and Bottom of Plaited Skirt	5.50
Coats	
Shortening Coats with Lining	3.00
Shortening Coats without Lining	2.00
Shortening Sleeves	1.50– 2.50
Piping Shoulders	.50
Dresses	
General Alteration	6.00– 8.00
Shortening Skirt	2.00
Shortening Sleeves	1.50– 2.50
Neck Changes	1.50
Raising Shoulder and Neck Change	4.00

to February, 1924, the sales volume of ready-to-wear garments in dollars and in units had increased between 30% and 40%, as compared with that for the year 1920-1921. This increase in sales had increased the number of alterations. The number of alterations during that three-year period had been more than

EXHIBIT 2

ORNABY COMPANY

Alteration Expenses, Receipts, and Losses
February 1, 1921, to January 31, 1924

February 1 to January 31	Number of Alterations Chargeable to Customers	Total Expense	Alteration Charges to Customers	Loss
1921–1922	7,994	$19,700	$11,000	$ 8,700
1922–1923	9,054	21,173	11,337	9,836
1923–1924	6,095	25,651	12,598	13,053

23,000. Data on alteration expenses, receipts, and losses for that period were as shown in Exhibit 2.

The executive in charge of alterations was convinced that the department could not meet all expenses so long as the fitters' salaries were charged to it. He maintained that these salaries should be a service overhead distributed to the selling departments in the same manner as other overhead expenses. The loss also would be reduced, he pointed out, if alteration prices were set with reference to the total costs charged against the alteration room rather than in accordance with prices charged by competitors. Since the Ornaby Company, however, did not have detailed records of the cost per alteration job, the executive in charge of alterations could not establish the price for each operation in accordance with its actual cost. He was of the opinion that an increase of 25% in all alteration prices was desirable. Such an increase would not cover the total loss incurred by the alteration department, but he deemed a larger increase impracticable, because customers would not consider such prices warranted, and because competitors probably would not increase their prices accordingly. He was of the opinion that there was a possibility of competitors following the lead of a 25% increase.

Should the Ornaby Company have changed its price scale for alterations on women's ready-to-wear garments by increasing each price 25%, or should it have continued to make charges for alterations primarily in accordance with the prices charged by competitors for similar services?

10. PRINCE, WAINWRIGHT & COMPANY

DEPARTMENTIZED SPECIALTY STORE—ADJUSTMENT OF CUSTOMER'S COMPLAINT

On May 15, 1922, a taupe jersey suit was returned to the adjustment office of Prince, Wainwright & Company by a customer who had purchased it for $32.50 about three weeks previously. The suit had faded under the arms, but it was apparent on close inspection that it had been given unusually hard wear. Prince, Wainwright & Company always had followed a liberal adjustment policy in the endeavor to establish a reputation for satisfying customers when merchandise did not prove satisfactory.

Mr. Smith, the manager of the adjustment office, first offered to have the suit dyed for the customer, stating that, if she was not satisfied with it then, a further adjustment would be made. The customer, however, demanded that either her money be refunded or another suit be given her. Since this demand appeared to be unreasonable, the manager of the adjustment office requested her to leave the suit, in order that he might take the matter up with the manufacturer.

On May 18 the suit was returned to the manufacturer with a letter explaining the situation, and in reply the following letter was received:

May 20, 1922

Prince, Wainwright & Company
Philadelphia, Pa.

GENTLEMEN:

With reference to jersey suit, style 225, and your letter of May 18:

We have examined the suit carefully and can only come to the conclusion that it has had hard wear and that the fading is not due to faulty merchandise, but to the severe use to which the suit was put. This is the first complaint that has ever come to our attention on this number, but as the fabric is of Schellenberger, Gross & Company manufacture, and is recognized as standard throughout the trade, and as we have never known the company to dodge responsibility where the damage was the result of any fault in manufacturing or material used, we will take the matter up with them and let you know the result later.

Yours very truly,

L. F. CURRAN
Joseph, Curran & Richards Garment Company

Inasmuch as it appeared that the responsiblity for the merchandise rested primarily with Joseph, Curran & Richards Garment Company, Mr. Smith wrote the following letter to the manager of Prince, Wainwright & Company's New York buying office.

May 24, 1922

Mr. J. C. Gilbert
Prince, Wainwright & Company
221 Fifth Avenue
New York, New York

DEAR MR. GILBERT:

A taupe jersey suit, style 225, has just been returned to Joseph, Curran & Richards Garment Company for adjustment. A letter from

the company states that they will take the matter up with the manufacturers of the fabric, and as I am eager to close the transaction, I will ask you to call on Mr. Curran of Joseph, Curran & Richards Garment Company and explain to him that this particular suit was worn only a very short time and that we feel that some allowance should be made, since when we purchased jersey suits from them they gave us a strong guaranty regarding the color and quality of the jersey that they were making these suits of.

However, we shall try to prevail upon the customer to let us dye the suit some other color for her. If she consents to this, we shall have to charge the dyeing to Joseph, Curran & Richards Garment Company, as we feel that it is only fair that they should stand this allowance to the customer.

Yours very truly,

R. D. SMITH
Prince, Wainwright & Company

On June 2, the manager of the adjustment office received the following letters:

June 1, 1922

Prince, Wainwright & Company
Philadelphia, Pa.

GENTLEMEN:

The complaint in regard to the jersey suit, style 225, which you returned to us was taken up with Schellenberger, Gross & Company, from whom we secured the material. The company refused to make any allowance, stating that the suit was badly worn, and that the light colors could not be guaranteed. Under the circumstances, we cannot make an adjustment on this suit, nor pay for the dyeing as suggested by Mr. Gilbert of your New York office.

The suit has been returned to you.

Yours very truly,

L. F. CURRAN
Joseph, Curran & Richards Garment Company

June 1, 1922

Prince, Wainwright & Company
Philadelphia, Pa.

DEAR MR. SMITH:

Replying to your letter of May 24 regarding the suit from Joseph, Curran & Richards Garment Company:

I saw Mr. Curran today and he stated that they positively could not make any allowance on this suit. He had taken the suit to the manufacturers from whom they secured the material, and they would not make any allowance; to quote Mr. Curran: "They laughed at the

idea of a store returning a suit in such a worn condition for an allowance." He further states that inasmuch as the suit is more worn than faded, his company cannot make any allowance.

Yours very truly,

J. C. GILBERT
Prince, Wainwright & Company

How should Prince, Wainwright & Company have handled this adjustment?

11. RODNEY & COMPANY

DEPARTMENT STORE—MERCHANDISE RETURNS BY CUSTOMERS

In its 46 departments the store operated by Rodney & Company sold high- and medium-price piece goods, women's and misses' ready-to-wear clothing, infants' and children's wear, furs, leather goods, jewelry, stationery, toys, china, and a line of men's furnishings restricted to a single department. The company was liberal in allowing returns from customers, believing that its reputation for excellent merchandise and service made such a policy essential. The store endeavored, nevertheless, to keep returns at a reasonable level and from time to time had difficulty in deciding what adjustments should be made.

Rodney & Company's annual net sales were approximately $7,000,000. Of this total, 75% was charged to customers' accounts and the remaining 25% was paid for in cash. The store's average gross margin was approximately 35%, and its average operating expense approximately 30% of net sales. Deliveries were made by local express companies.

Returns of merchandise for credit in 1928 amounted to approximately 12% of the company's net sales. Allowances, representing the refund of part of the retail value in cases of returned merchandise, were not accounted for separately but were combined with merchandise returns; it was known, however, that only a small proportion of the total figure of 12% resulted from allowances. Returns made for exchange, also relatively small in volume, were treated separately in the store's records from those made for credit. Discounts of 15% were allowed to store employees, and of 10% to recognized dressmakers for

material used in their trade. These discounts were accounted for separately from returns and allowances to customers. No discounts were allowed to other classes of customers, such as clergymen.

A cooperative effort to place returns of merchandise on a uniform basis had been made by the retailers in the city in which Rodney & Company's store was located. The organization established for that purpose stated that the average percentage of returns for the stores in the city was higher than that for any other city in the United States. So far as Rodney & Company was aware, the lowest percentage of returns for any store in the city was that of 9% reported by a department store selling a low grade of merchandise. The cooperative organization had published a set of rulings relating to returns, which most of the retailers in the city had agreed to observe. These rulings were as follows:

Believing that a reasonable restriction on the time for exchange or return of merchandise is desirable, in the interest of both customers and retailers, the undersigned member stores agree:

(*a*) To adopt a uniform rule covering the return of merchandise as follows:

"Merchandise may not be kept in the customer's possession for more than three business days if the customer is to be allowed the privilege of returning such merchandise for exchange or credit."

(*b*) To make frequent statement of this rule to customers through advertisements, price tags, sales slips, etc.

(*c*) To accept merchandise for credit or exchange only when in original condition and when accompanied by sales check or other evidence of sale.

(*d*) To charge customers one-quarter of a yard on returned piece goods when such goods amount to five yards or less or must be sold as a remnant.

(*e*) To class as non-returnable the following merchandise:

(1) Bedding and mattresses.
(2) Combs, hair goods, hair brushes, and tooth brushes.
(3) Rubber toilet articles.
(4) Women's hats made or trimmed especially to customers' orders.
(5) All merchandise made to order or especially ordered and which is not regularly carried in stock, or which has been altered for purchaser and which is therefore not salable.
(6) Veilings.
(7) Books.

Provided:

1. That nothing in the foregoing policy shall prevent stores from adopting a shorter period for return of merchandise (viz., basement stores).

2. That stores shall not be prevented from taking such action as they deem necessary to adjust their own errors and omissions, or to make such adjustments as may be required in individual cases in order to assure that the store's policy is being properly carried out.

Rodney & Company had signed the agreement but had protested against the strictness of paragraph (*a*), preferring that the limit be set at seven days rather than at three. In practice the store did not question the validity of a return on the ground of time provided it was made within 30 days of the date of purchase. With respect to this rule, the company interpreted paragraph 2 liberally. Rodney & Company did not comply with paragraph (*b*) since such action, it was thought, might detract from the store's prestige. The first provision of paragraph (*c*) was in general applied, with the exception that, although merchandise offered for return in other than salable condition ordinarily was refused, in certain instances it was accepted and the customer credited with a portion of its retail value. As to the second provision of paragraph (*c*), returns were allowed without direct evidence that the goods had been purchased from Rodney & Company whenever the circumstances appeared to justify such action. None of the cooperating stores followed this part of the rule strictly. Paragraphs (*d*) and (*e*) were observed in general by Rodney & Company in so far as they applied to the merchandise that the store carried. At times, however, the return of merchandise made to order was allowed on the basis of store policy. Returns of merchandise sold by the store during special sales were permitted, but not in the case of the two store-wide clearance sales, held in January and June.

The adjustment department was supervised by a director of the company, who also fulfilled other functions not assigned to the merchandise manager, store manager, controller, or publicity manager. The adjustment department was functionally separate from all of those four lines of authority. Appeals from the decision of the director in charge of adjustments were referred to the store manager as final arbiter. On each floor of Rodney & Company's store was located a return desk in charge of one or more clerks whose exclusive function was receiving returns, and who acted under the supervision of the central adjustment

department. A customer returning merchandise was directed to the return desk on the floor where it had been purchased. The return desk clerk opened the package to ascertain from the enclosed price tag, sales ticket, or label whether it had been purchased at the Rodney & Company store. If there was no evident question regarding the validity of the return, the clerk gave the customer a receipt stating that the merchandise had been placed in the store's possession and that its value would be credited to the customer's account after authorization by the proper store executive. The customer, upon receiving the receipt, was free to leave the store. In a great majority of cases, credits were authorized, and the customer was enabled to complete the transaction with little loss of time. Duplicates of the return receipts were signed, after inspection of the returned goods, by the heads of stock of the departments in which the merchandise had been purchased. These signatures constituted authorizations of the credits. The duplicate receipts were then transmitted to the adjustment department, which was responsible for seeing that the credits were entered on customers' accounts.

If, in the opinion of the return desk clerk, there was some question as to whether the goods had been purchased in the store, or if, on casual inspection, some glaring defect in the merchandise was apparent, the clerk asked the customer to wait for a moment and referred the case to the floor manager. The occurrence of this situation was not common and was largely confined to the ready-to-wear departments, where damage to returned merchandise was more readily manifest. With regard to returns from customers, the floor managers operated under the supervision of the adjustment manager; they were given broad authority over returns, in order to avoid, whenever possible, the reference of cases to the central adjustment department. If the floor manager's treatment failed to settle a controversial case, the customer was referred to the adjustment manager, whose authority was final. The disposition of cases of disputed returns was thus held as closely as possible within the province of the adjustment manager. This practice was followed because the questions to which returns gave rise were considered matters of store policy. In other words, certain instances occurred in which the insistence of customers on the store's acceptance of returns was obviously unreasonable, and the task of deciding which merchandise should be accepted and which refused involved the formula-

tion and application of principles respecting the store's attitude toward the satisfaction of customers. Buyers had no authority over cases of returned merchandise. In isolated instances, however, they were on the floor when such cases arose, and might discuss them with customers in place of, or together with, the floor managers.

In a majority of cases, the customer was not in the store when a question was raised as to the acceptance of a return. If the merchandise was brought to the store personally by the customer, she ordinarily had left before the questionable feature was discovered. If the merchandise was sent to the store, it was received in the basement, sent from there by messenger to the proper return desk, and then referred with the duplicate return receipt to the proper head of stock. In either event, if the head of stock declined to authorize the credit, he referred the unsigned return receipt, together with a statement of his reasons for refusal, to the adjustment department. That department was responsible, thereafter, for disposing of the case by correspondence.

For the store as a whole, monthly returns, as percentages of charge sales, cash sales, C. O. D. sales, and total gross sales, for the years 1922 to 1929, inclusive, were as shown in Exhibit 1.

The several departments displayed some diversity in seasonal variation of returns, as demonstrated by the figures in Exhibit 2 for the china, ready-to-wear, and jewelry departments during the period from May, 1928, to April, 1929.

Rodney & Company had not attempted to determine accurately the total cost involved in the handling of returns. It recognized, however, certain definite factors of expense. The cost of maintaining the central adjustment department and the return desks could definitely be charged to returns. At one time Rodney & Company had referred customers who returned merchandise to the salespersons who had assisted in its selection. This method provided the salespersons with an opportunity of convincing the customers of the fitness of their purchases or of selling them other merchandise. On the other hand, the sales pressure brought to bear on the customers under this policy, together with the fact that customers frequently were forced to wait until particular salespersons had returned from lunch or from other parts of the store, resulted, in the company's opinion, in loss of good will. The shift to central return desks appeared to have corrected this condition.

EXHIBIT 1

RODNEY & COMPANY

Monthly Returns as Percentages of Charge, Cash, C. O. D., and Total Gross Sales, 1922–1929

	1922–1923	1923–1924	1924–1925	1925–1926	1926–1927	1927–1928	1928 1929
Charge Credits to Gross Charge Sales							
August	13.9 %	13.3 %	14.0 %	12.9 %	13.9 %	14.2 %	17.8 %
September	11.1	12.7	10.2	10.2	10.9	11.9	12.6
October	14.8	13.5	14.6	14.5	16.2	15.7	16.0
November	14.2	13.8	14.4	14.6	15.0	16.6	17.0
December	9.8	7.6	8.4	11.2	11.1	10.9	10.8
January	16.1	16.6	17.5	18.2	18.6	21.2	21.4
February	13.9	13.7	14.3	14.6	17.6	16.7	18.2
March	12.8	12.5	14.4	13.0	16.5	16.7	15.4
April	16.1	15.3	16.4	15.7	16.6	18.0	18.7
May	15.7	16.3	15.3	15.3	16.3	17.2	17.5
June	13.4	14.4	14.3	14.0	14.7	15.3	
July	15.5	19.4	15.9	17.9	20.3	18.9	
Cash Credits to Gross Cash Sales							
August	3.5 %	3.0 %	3.8 %	4.1 %	4.1 %	4.2 %	5.7 %
September	2.9	3.8	3.0	3.3	3.6	4.1	4.0
October	2.6	3.6	4.8	3.8	4.9	4.0	6.7
November	3.8	4.7	3.8	4.7	4.7	5.3	5.5
December	2.7	2.5	3.2	3.2	3.4	3.4	4.1
January	4.7	4.9	6.3	5.9	7.6	7.1	8.4
February	4.1	3.9	5.4	5.2	5.0	5.6	5.4
March	3.3	3.4	4.0	4.9	1.1	4.8	5.0
April	4.8	4.4	5.6	5.2	5.2	5.8	5.7
May	4.6	4.9	4.5	4.6	5.4	5.0	5.7
June	3.8	3.8	4.6	4.3	5.3	1.0	
July	3.9	4.4	4.3	5.0	4.6	5.1	
C. O. D. Credits to Gross C. O. D. Sales							
August	7.9 %	6.6 %	6.6 %	4.0 %	5.2 %	4.8 %	14.1 %
September	8.0	5.9	4.5	4.8	7.5	9.3	7.0
October	10.3	11.5	6.0	8.8	11.4	6.9	10.5
November	10.1	9.0	5.6	6.9	12.1	11.6	9.2
December	10.8	5.5	5.8	10.5	5.9	12.8	6.7
January	6.8	6.2	9.3	9.8	7.8	7.4	9.9
February	7.2	3.6	7.0	10.5	13.3	11.5	9.5
March	6.2	11.9	6.7	4.6	9.5	14.3	6.6
April	11.9	5.2	6.8	6.1	8.4	9.1	11.2
May	6.1	12.7	9.2	10.2	8.3	9.0	12.0
June	10.7	6.3	13.8	11.6	10.8	7.3	
July	9.4	12.9	8.4	5.3	7.4	14.6	
Total Credits to Total Gross Sales							
August	10.9 %	10.5 %	11.1 %	10.4 %	11.3 %	11.7 %	15.2 %
September	9.2	9.9	8.5	8.7	9.3	10.4	11.0
October	12.4	11.7	12.9	12.4	16.3	13.7	14.5
November	12.0	11.9	12.1	12.6	13.1	14.7	15.3
December	7.9	6.2	7.0	9.2	9.1	9.3	9.3
January	13.6	14.0	14.9	15.6	16.3	18.7	18.2
February	11.5	11.4	12.4	14.3	15.1	15.0	16.2
March	10.8	10.7	12.4	12.7	14.5	14.9	13.8
April	13.8	12.9	14.1	15.4	11.3	16.0	16.7
May	13.2	13.9	12.8	14.9	14.2	15.2	18.7
June	11.3	11.9	12.3	13.8	12.9	13.7	
July	12.4	15.8	12.9	17.3	16.8	16.3	

EXHIBIT 2

RODNEY & COMPANY

Monthly Returns as Percentages of Gross Sales in China, Ready-to-wear, and Jewelry Departments
May, 1928–April, 1929

	China	Ready-to-wear	Jewelry
1928			
May	4%	21%	19%
June	4	20	16
July	6	15	16
August	5	21	18
September	5	12	10
October	3	18	15
November	5	25	18
December	4	16	12
1929			
January	10	21	23
February	7	27	18
March	6	18	15
April	5	20	20
Average	5%	19%	16%

Most merchandise returned could be put back in stock in the condition in which it was received, except for an occasional pressing or other minor attention, and on such returns no mark-downs were taken. In some instances, however, when allowances were made solely to maintain goodwill, mark-downs were necessary. The cost of employees' time involved in the selling of merchandise which was later returned could not be definitely allocated to returns, inasmuch as the working hours of the salespersons were not completely utilized in productive selling in any event. Such selling effort, furthermore, could not be differentiated from that involved in displaying merchandise to shoppers who failed to purchase.

The largest factor of expense for which returns were responsible, in the opinion of the company, lay in re-ticketing the merchandise and changing the store's stock records. Two types of tickets were attached to goods placed in stock. When the goods were sold, one type of ticket was detached and the other was torn in half along a perforation. If the merchandise was returned, it was necessary to re-route it through the same process that had applied when it first was received by the store, including the making of new entries in the stock records. The problem of

returns occasionally was further complicated by the return of a piece of merchandise of a type no longer in stock.

Although for the store as a whole returns had averaged approximately 12% of sales during each of the 8 or 10 years preceding 1929, the rates of returns for the several departments varied widely. Returns, as percentages of net sales, for a representative group of departments in 1928 were as follows:

Sportswear	32%
Children's Wear	26
Draperies	23
Infants' Wear	22
Women's Coats and Dresses	20
Misses' Coats and Dresses	18
Jewelry	18
Silks	6
Hosiery	4
Ginghams	2
Toilet Goods	1½
Silk Thread	1½

In its accounting and statistical records the company did not classify returns according to causes, but recognized that the causes for returns varied among the departments. The high rate of returns in the sportswear department was ascribed to the fact that customers often failed to try on sportswear, both because its importance as an item of apparel was less than that of coats and dresses, and because articles such as slipover sweaters tended to disarrange the hair. In the cases of children's and infants' wear, the store attributed the high returns to the fact that customers were frequently either unable or unwilling to bring their children to the store and were ignorant of the sizes required. As a consequence, two sizes frequently were taken from the store and one returned.

As for draperies, Rodney & Company sent out sample lengths with which customers might experiment in their homes. The designs which customers did not retain were returned by them and replaced in stock. The store realized that these instances could not strictly be classed as returns, and in the past it had attempted to segregate them in its statistical records. It had found, however, that less confusion resulted from recording them under the regular procedure for sale and return, and had reestablished that practice. In the case of jewelry, and to a lesser extent in the case of furs and evening wraps, the company believed that articles were occasionally taken from the store, worn for a party or dinner, and then returned. This practice the company

regarded as exceptionally undesirable and made specific efforts to combat.

The figures of 20% and 18% for returns of ready-to-wear merchandise were looked upon as reasonable for a store of the type operated by Rodney & Company; the management knew of similar stores, which made a practice of sending out on approval large quantities of merchandise, in which the rate of return was as high as 30%. Rodney & Company had found that in general its regular customers caused little trouble through returned merchandise; the chief difficulties were caused by customers whose accounts were small and whose purchases were infrequent.

Of the factors influencing returns of merchandise to Rodney & Company, damage in delivery was negligible. Few returns, furthermore, were occasioned by faulty merchandise. When returns occurred for this reason, however, the company sought to make completely satisfactory adjustments. Especially with returns of newly developed merchandise, with the care of which customers were not familiar, the store felt itself obliged to deal liberally, even though the merchandise was not faulty and the store not technically responsible. During the first year in which chiffon velvet had been sold, for instance, the store had attempted to impress on its salespersons the necessity for cautioning customers about the fabric's durability, but the effectiveness of this procedure in preventing dissatisfaction on the part of purchasers was difficult to measure. The company, furthermore, had abstained from the sale of rayon goods for some years after its introduction because it considered the fabric likely to deteriorate under improper treatment.

Faulty selling was rated by the company as the primary cause of returns. This resulted either from deficient judgment on the part of the salespeople as to appropriate styles and colors or from excessive eagerness to make sales. Faulty selling could be traced to individual salespersons through the company's monthly summaries of sales and returns. The variation among employees in this respect was large: in the ready-to-wear departments, for instance, the lowest average rate of returns for any salesperson was 8% and the highest was 26%. If all its employees were as efficient as the best, the company estimated that it could reduce its average returns for the store as a whole to 8% of sales. On the basis of the sales employees' records, the store manager discharged

two types of employees: those with relatively low sales and high returns, and those whose net sales were large even after the deduction of returns but the absolute volume of whose returns indicated that they were exerting undue sales pressure. For the improvement of the selling methods of its salespersons, the company depended both on its supervisory employees and on its central educational department, which conducted regular classes in salesmanship and store policy.

Many returns were allowed which were occasioned by no fault of the store. For instance a woman purchased chiffon yard goods, cut them up, made them into a dress, and then informed the store that the material was not of good quality since it pulled at the seams. The customer was satisfied with the floor manager's explanation to the effect that she had used too large a needle, but he nevertheless gave her a reduced price on new material. Another customer brought to the store in October a fur coat which she had purchased the previous February and which had been reduced in price at that time from $375 to $175. She claimed that the coat had been worn while in storage, stating that she herself had not worn the coat, had placed it with the store in April for storage, and had just taken it out. This claim finally was referred to the store manager for settlement. From her conversation it appeared that the customer considered the coat somewhat out of date and inferior in quality. At first the store manager flatly refused to accept the return, stating that the coat could not possibly have been taken from the storage warehouse. After further contention, however, he agreed to receive it for credit and at the same time stressed the fact that the coat was an excellent value and could readily be sold by the store. The customer then requested time to consider, was allowed 24 hours, and telephoned to the store the next morning to ask that the coat be sent to her.

As one means of curtailing returns, the company instructed its salespersons to have customers try on all garments before buying them and to make reasonably sure that the customers were convinced of the garments' desirability before the sales were concluded. With the exception of draperies, the company had discontinued sending out merchandise on approval. On each fur piece, furthermore, the store fastened with wire and a lead seal a metal tag, the removal of which invalidated the privilege of return. The company contemplated adopting a similar policy

for its more expensive pieces of jewelry. A device for the same general purpose, which utilized surgeon's tape and was stated to be effective for varied types of merchandise, had been demonstrated to the store, but had been rejected because of the possibility that its use might antagonize the store's customers.

The two following cases of returns, both handled by correspondence, were brought before the adjustment department for solution in the winter of 1928 and the spring of 1929.

First Case.

November 26, 1928

Rodney & Company

GENTLEMEN:

On Friday at about closing time I called for a sleeveless gown, and I very much regret that I find it necessary to return same.

I tried this dress on Sunday again and, while the family liked it very much in itself, they declared it was not suitable for me. I had planned to wear it Sunday evening, but wore another instead.

I dislike very much to begin our business relations in this way, but my husband thinks you would rather this way than if I kept it dissatisfied.

If you think it right, I shall be willing to pay any charges for this extra trouble.

December 1, 1928

Mrs. S. F. T.

DEAR MADAM:

Your letter of November 26 has been received together with the dress in question. We are, as a rule, glad to accomodate our patrons in the return of goods that are bought in the regular way and sent back promptly in salable condition.

We really feel, in regard to this dress, that it is not in the same condition as when it left the store for, upon examining it, we find that the skirt is badly crushed, there are two spots on the front of the dress, and we are doubtful if it will be possible to remove them. Then, it is slightly discolored under the arms, and around the neck. We appreciate your offer to pay for any charges for the trouble involved; but, even were we to have the dress cleansed, it would not be possible for us to return it to stock and again offer it for sale as fresh merchandise, and at its original price.

Hence we regret that we must ask to be excused from accepting it for credit and are quite sure that upon reconsidering the matter you will appreciate the reasonableness of our position.

December 3, 1928

Rodney & Company

ATTENTION E. W. S.

Your letter of the first is at hand. I am surprised at your attitude, for your request for reasonableness is surely one-sided. I would ask that you reconsider my position.

The fact remains that my husband has taken a positive dislike to the dress. I can assure you that I wore this dress for just as long as it took my husband to see it, and that when he told me he didn't care for it I gave it to the maid and ordered her to give it to the postman in the morning.

While I can safely say this is the first time anything so unfortunate has happened, I feel encouraged in returning it because several of my friends here, who are patrons at your store, assured me that your store would undoubtedly cooperate, especially where I had offered to pay for the additional trouble.

I have every intention of favoring your store, as do my friends, and they, as well as I, assure you, you will have more to gain by meeting me half way rather than forcing me to accept the dress. I am very, very sorry that this had to happen, but I am hoping your slogan is "Customers satisfied at all cost." It pays.

Second Case.

March 30, 1929

Rodney & Company

DEAR SIRS:

I wish to inform you that I purchased eight yards of taffeta from your store, in February, from which I had an evening gown made. This gown when completed cost me $65, but after wearing same only on one or two occasions, the material all fell apart, and is impossible to be worn again.

I would kindly ask you to let me know what your intentions are in this matter, as I expect you to reimburse me for the loss of same.

April 3, 1929

Mrs. D.

DEAR MADAM:

Replying to your letter of March 30, we understand that this dress to which you refer was examined by our merchandise people, who were unable to find any fault with the material.

We shall, however, be very glad to have it examined again, if this would make you feel more satisfied, and to this end we would suggest that you send it to us again (this time addressing it for Miss Blank) and after we have had an opportunity to make the desired investigation, we will confer with you again.

May 1, 1929

Mr. K., Manager,
RODNEY & Company

DEAR SIR:

The following is in reference to material (flowered taffeta) which I bought at Rodney's and which, when made into a dress, has worn very badly, the bodice, which was shown to you, tore when worn the very first time.

If you recall, Mr. R. of the goods department offered me material for the bodice, but on learning that the material was no longer available suggested a compensation of $7.

This last offer is scarcely acceptable to me, since it will not make up for the loss of the dress, which cannot be remodeled except with the same goods and which cost $60 including $30 for the seamstress and trimming.

The only just and reasonable offer from Rodney & Company would therefore be other material for an entirely new dress. Even with this I would still lose $30 for the sewing, for which I shall not ask payment.

I would appreciate an early adjustment of this matter.

May 4, 1929

Mrs. D.

DEAR MADAM:

Replying to your letter of May 1 we write to say that on looking into this matter of your dress we can only corroborate what was said to you by both Mr. R. and Mr. B. They, we believe, explained to you some of the peculiarities of taffeta which were showing in this dress and which were unavoidable with this fabric.

On showing this dress to the one in charge of our Alteration Department she said at once that in her judgement the basque was probably too tight for the wearer and the material in such a case would simply give way under the strain thus imposed on it if there were no provision made for relieving it of that condition.

Under the circumstances, we cannot see anything in the situation for which we could be expected to assume any responsibility as there is nothing to indicate that the material is in any way at fault. We appreciate your disappointment, however, and would like to do anything reasonably possible to relieve the situation for you. Hence, we shall be very glad to make the allowance of one-half the price of the silk, as Mr. R. offered to do, but we do not feel that we could do anything further than this, and we believe that you will recognize the reasonableness of our position.

May 20, 1929

Rodney & Company

GENTLEMEN:

I recently wrote you with regard to material I purchased at your store for an evening gown. This gown cost me from $60 to $65, but the material fell apart after being worn on only one or two occasions.

I have also spoken to your Mr. R. and Mr. B. on this matter, but have been unable to obtain satisfaction. I am, therefore, deducting $60 for the cost of this gown, and enclosing a check for the balance, namely $9.83, which will settle the enclosed bill.

What disposition should the company have made of these two cases?

Should Rodney & Company have made any changes in its policies and methods relative to customers' returns and allowances?

12. GREENFIELD DAVIS COMPANY

DEPARTMENTIZED SPECIALTY STORE—INDICATING TO CUSTOMERS THE QUALITY OF MERCHANDISE

The president of the Greenfield Davis Company, a departmentized specialty store, requested the research department to prepare a series of informative statements or labels to be attached to different kinds of goods for the purpose of indicating the quality of the merchandise. By using printed statements explaining the character or content of the fabric or important limitations on the wearing qualities of the merchandise, the company hoped not only to reduce the number of customers' returns and adjustments but also to develop further the reputation of the store for fair dealing with the public.

In the women's coat department during the previous winter a large number of adjustments had been made on soft pile fabric coats; hence it was suggested that a label should be attached to merchandise of this class bearing a statement somewhat as follows: "The material used in this coat is a soft pile fabric, and we cannot guarantee it against hard wear." Although garments of this material were being shown in all the women's apparel shops as well as in the department stores, they clearly had been designed for appearance rather than for durability, and in many cases they failed to give the service which some customers expected of high-price merchandise.

Also a label stating the percentage of cotton or shoddy contained in boys' suits was proposed. Although the wording of

this label had not been determined definitely, it was thought that a reason should be given for the use of a small percentage of cotton or shoddy in addition to the wool. It further was suggested that all chiffon stockings should bear a tag with a statement somewhat as follows: "The material in this stocking is perishable. We should prefer to sell you our more serviceable hosiery. We assume no responsibility for the wearing qualities of this merchandise."

Several possible methods of attaching the labels were under consideration. An attractive silk label which could be sewed to the garment inside the collar was suggested for coats and suits. This could be seen readily by the customer and would not detract from the appearance of the merchandise. On the other hand, a string ticket, with the statement printed on it, which could be attached readily to any garment, would serve the purpose and would be less expensive than a silk label.

In opposition to the use of labels or tickets which in any way suggested limitations on the quality of the merchandise, it was argued that statements of this nature tended to create a wrong impression in the minds of many customers and thereby might decrease sales volume. Such information, it was suggested, might better be given verbally to customers by the salespersons. Yet a salesperson, in her eagerness to make sales, might either neglect to impart this information or hesitate to make any statements that would endanger the sale. Even if a label was attached, however, it might not be observed by the customer unless called to her attention by the salesperson. There also was a question as to the nature of a customer's reaction when she found a statement apparently limiting the guaranty on an article after she had purchased it under the impression that the Greenfield Davis Company stood ready to replace all merchandise that proved unsatisfactory.

The desirability of stating the percentage of cotton or shoddy in boys' suits also was doubted. Some customers thought that a suit had to be all wool if it was to give satisfaction, and might hesitate to purchase a suit that was labeled otherwise.[1]

What policy should the Greenfield Davis Company have adopted with respect to informing customers of the wearing qualities or fabric content of merchandise?

[1] The so-called "truth-in-fabric" bill, several times introduced in Congress, is a measure to require certain textile manufacturers to indicate clearly the fabric content of all their products.

SECTION VII

MERCHANDISING

SUGGESTED READING

BRISCO & WINGATE, *Retail Buying*, Chap. V.

CHERINGTON, "Some Commercial Aspects of Styles and Fashions in the Clothing and Textile Industries" (*Harvard Business Review*, July, 1924).

———*The Wool Industry*, Chaps. X, XII.

CLARK, "An Analysis of the Causes and Results of Hand-to-Mouth Buying" (*Harvard Business Review*, July, 1928).

COPELAND, *Principles of Merchandising*, Chaps. III, VI (especially pp. 164–167).

CREIGHTON, "Four Phases of Merchandising Outlined in Talk on Stylist" (*Women's Wear Daily*, February 6, 1929).

HAHN & WHITE, *The Merchants' Manual*, Chap. XXIII.

HAYWARD & WHITE, *Chain Stores* (3d Ed.), Chap. IX.

HURLOCK, *The Psychology of Dress*.

"Keeping in Place in the Style Cycle" (*Harvard Business Review*, April, 1927).

KNAUTH, "The Effect of the Public's Demand for Better Art on the Technique of Merchandising" (*Harvard Business Review*, July, 1929).

Merchandise Managers' Division of the National Retail Dry Goods Association, *The Buyer's Manual*, Chaps. XIV–XVI.

MURPHY & BLOCK, *Buying* (Alexander Hamilton Institute, Modern Merchandising Texts, Vol. V), Chap. I.

National Bureau of Economic Research, Inc., *Recent Economic Changes in the United States*, Vol. I, Chap. I.

NYSTROM, *Economics of Fashion*.

———*Economic Principles of Consumption*.

See Also cases of the Bernard Specialty Shop, 3 H.B.R., 291; the Bowman Company, 3 H.B.R., 320; and Truro & Company, 3 H.B.R., 210.

1. DOVER STORES CORPORATION

5- AND 10-CENT CHAIN—PURCHASE OF WRITING PAPER[1]

The Dover Stores Corporation operated a chain of 5- and-10-cent stores. The stationery departments of these stores sold boxed writing paper for which the company paid $9.60 a gross. A manufacturer of writing paper offered to sell the company writing paper of considerably higher quality at $10.50 a gross.

There were 100 stores in the chain of the Dover Stores Corporation. These stores were distributed over the United States east of the Rocky Mountains; the home office was located in Philadelphia. For administrative purposes this territory was

[1] The following excerpts from an article in *System, the Magazine of Business*, for July, 1925, by H. T. Parsons, president of the F. W. Woolworth Company, present some of the salient points of the Woolworth Company's merchandising policy: "We let the consumer do our selling—and our buying. We let the public buy what it wishes, not what we want to sell it. The customer is at liberty to choose any one of a thousand articles from our counters. We do not push sales—we let sales flow. These movements go quickly back to the stock-room, from there to the warehouse, and from there to our buying . . . Our windows display those goods in which the customer will find his best opportunities during the current week. We do not display slow-moving goods that we want to get rid of; we display the goods that the customer wants most, or would want most if he knew about them . . . Our stores are as nearly as possible silent places, so far as the salesmen are concerned, where the customers are free to do their own thinking. Our salespersons are not even allowed to solicit sales. They do not use even a coaxing sentence as 'Wouldn't you like to buy some of these?' It is quite a different matter to say when a customer has picked up an article: 'Would you like one of those?' because the customer may be waiting for the salesgirl to wrap it up. For a similar reason, we do not demonstrate new items. Demonstrations of goods tend to force sales beyond the natural demand. We do not know just what proportion of these forced sales are made in excess of the basic demand, so we could not tell what quantities to buy. The only sort of demonstration that takes place in our stores is when a customer leans across the counter and asks a salesperson how the article is operated or used; then the salesperson demonstrates to the customer. Usually, however, we confine our items to those which everybody knows how to use, or to those whose uses are self-evident. With few exceptions, our goods sell themselves."

In commenting on this article, Mr. Chester C. Kaskell, controller of Stix, Baer and Fuller Dry Goods Company, Saint Louis, Missouri, said: "There is much for department stores to learn from 5- and-10-cent-store organizations."

In 1925 it was reported that one of the leading chains of 5- and-10-cent stores had made arrangements to sell books at the price of 10 cents each. These books, which were of nearly normal size, with readily legible type, embraced standard works of English and American literature. It was stated that after a prolonged study of the problem a publishing company had established a new plant in which the quantity production of these books could be handled so economically that it was possible for both the publisher and the 5- and-10-cent chain store to secure a profit from books sold at a retail price of 10 cents each.

divided into three sections: East, South, and West. The annual net sales of this chain amounted to about $18,500,000, divided approximately as follows: 45% in the East; 30% in the West; and 25% in the South.

The management of the Dover Stores Corporation endeavored to purchase merchandise which would permit an average mark-up on selling price of 31% when sold at either 5 or 10 cents. All merchandise for this company was purchased centrally.

In their stationary departments the Dover stores sold, among other items, a special box of writing paper, containing 24 sheets and 24 envelopes, for 10 cents. The annual sales of this type of boxed writing paper were about $18,000 in the East, $10,000 in the South, and $20,000 in the West. The management considered that this was a satisfactory volume of sales for this type of paper. The average stock of all types of writing paper sold by the Dover Stores Corporation was turned about four times a year. This type of boxed writing paper was purchased from the manufacturer at an average price of $9.60 a gross at the factory.

The Kilburn Paper Company, a manufacturer of writing papers located in northern New York State, offered to make and box for $10.50 a gross a better grade of writing paper, which it was expected that the Dover stores would sell at 10 cents a box. This grade of writing paper was sold in department and drug stores at prices ranging from 15 to 20 cents a box. The management of the Dover Stores Corporation estimated that if the stores sold this better quality of writing paper at 10 cents a box, their total yearly sales of boxed writing paper of this one type would be increased about 20%. Within limits, it was expected that the ratios of selling and indirect expense would not be increased by a moderate increase in sales volume, so long as aggressive sales efforts were not used. All merchandise carried in the stores was expected to sell readily on its own merits.

Because the prospective gross margin was not sufficiently great the management of the Dover Stores Corporation refused to accept the paper manufacturer's first offer, but continued the negotiations.

Usually the Kilburn Paper Company extended credit for periods varying from 30 to 90 days. The management of the Dover Stores Corporation stated that its policy was to purchase merchandise strictly on a cash basis, and suggested that the Kilburn Paper Company should, therefore, offer a lower price

on the writing paper. After consideration, the president of the Kilburn Paper Company submitted a new offer, stating that if the Dover Stores Corporation would pay cash for its purchases, and if it would guarantee to purchase 300,000 boxes of this writing paper from the Kilburn Paper Company during the year, he would agree to sell the paper for $10 a gross and to make deliveries throughout the year at times specified by the purchaser. He also stated that the Kilburn Paper Company would be in a position to deliver 750,000 boxes a year of the same type of writing paper at this price.

Should the Dover Stores Corporation have accepted the second offer of the Kilburn Paper Company?

2. BURNLEY COMPANY

VARIETY CHAIN—SALE OF HOUSE DRESSES

During 1928 the buyer of the Burnley Company's women's wear department, which sold women's knit underwear, bathrobes, and house dresses, placed before the company's merchandise manager a proposal to secure for sale at $1 house dresses of a quality usually sold at $1.39 to $2.

The Burnley Company operated 80 stores selling variety merchandise at prices under $1. In 1927 the company had sales of $30,000,000. Sales of the women's wear department were $2,000,000 of this total, and sales of house dresses approximately $150,000. The initial mark-up of the women's wear department was 33% of retail, and mark-downs were slightly in excess of 2% of sales.

Most of the house dresses which the company sold were priced at $1, although the company several times yearly offered house dresses in special events at lower prices. In general the house dresses sold by the company were equal in quality to dresses sold by competing chain companies and department stores at similar prices. A few competitors because of greater buying power had offered house dresses of slightly higher quality than those sold by the Burnley Company. Competitors also had made special offerings of job lot merchandise in which better house dresses than those of the Burnley Company were sold at $1 or less. The Burnley Company did not buy job lot merchandise. Through

following its usual policy in the selection of the most competent manufacturers, the Burnley Company believed that it was securing the best values that could be obtained to sell for $1. The company ordinarily had purchased house dresses which were made from material selected by the dress manufacturer in styles originated by him.

Although the company had exerted itself to obtain the best possible dress to sell at $1, the buyer realized that the colors of the cloth were not always fast and that the quality of the material and workmanship was no higher than that of house dresses which competitors were selling at $1. He wished to be able to offer at $1 house dresses commonly sold at from $1.39 to $2. He knew of no manufacturers, however, from whom the company could buy dresses of these values to sell profitably at $1. The merchandise manager approved of the plan to secure a house dress of better quality to sell at $1, but he stated that the cost of the dresses must not exceed $8.50 a dozen and pointed out that the company's policy of not selling at special prices merchandise regularly carried in stock would prevent the company from selling the dresses in special events for less than $1.

The buyer estimated that the Burnley Company could sell annually 20,000 dozen house dresses at $1 if the values were equivalent to those offered regularly at prices between $1.39 and $2, but he could not find any dress manufacturer who was willing to commit himself to the purchase of a sufficient quantity of material to fill the company's estimated requirements. Dress manufacturers, in general, were skeptical of the Burnley Company's ability to dispose of such a large quantity. The buyer, however, was willing to select and purchase the material in order that the dress manufacturers might be concerned only with the actual production of the dresses. In his opinion it was doubtful whether the manufacturers would purchase material of the quality the buyer wished, and unless the company made direct arrangements with cloth manufacturers there was little certainty that the Burnley Company could secure exclusive rights to the patterns or designs of cloth which the buyer wished to purchase. It seemed advisable, therefore, that the buyer go direct to the cloth manufacturer, select the quality and patterns of material wanted, and then make arrangements for the manufacturing of the material into house dresses.

Accordingly, the buyer approached a cloth manufacturer who had a reputation for manufacturing material of good quality. The buyer stated his belief that the Burnley Company could sell 20,000 dozen house dresses at $1 if they were of the required quality, and explained that the company would need approximately 700,000 yards of material yearly, and would stipulate that the cloth be of a certain count and of fast color, and that the designs be restricted to the Burnley Company. The manufacturer offered to supply the specified material at a mutually satisfactory price if the Burnley Company agreed to take 700,000 yards and if the manufacturer could produce the entire quantity at once. The Burnley Company's buyer did not wish to contract for 700,000 yards but was willing to order 500,000 yards. The manufacturer said that he would make no profit on an order for 500,000 yards. The buyer pointed out, however, that the manufacturer was sure to make a profit if the Burnley Company used 700,000 yards, and that, if the plan was sound, the company's requirements probably would exceed 700,000 yards. It was agreed finally that the Burnley Company would contract for 500,000 yards and that the difference between 500,000 yards and the company's estimated requirements of 700,000 yards, if not used for house dresses, would be disposed of by the two parties working together.

The buyer then sought manufacturers who would be willing to make up the material into house dresses. His proposal was that the Burnley Company agree to take two-thirds of the dresses manufactured, that is, 13,000 dozen, and to assist the manufacturers in disposing of the remainder if the company could not take them itself. The dress manufacturers interviewed stated that the only way in which they could manufacture the dresses at the price offered by the company was to use quantity production methods, making all the dresses within a short space of time. These manufacturers were wholly unwilling to make up the dresses concurrently with the company's demand. They agreed, however, to manufacture the dresses in January, store them in their warehouses, and ship them to the stores when needed, accepting payment when deliveries were made.

The Burnley Company's buyer, realizing that the manufacturer's primary function under the proposed arrangement was that of manufacturing, stated that the Burnley Company would select the styles and decide what sizes were to be manufactured. In the opinion of the buyer, it was doubtful whether a manu-

facturer could select styles which would be popular throughout the year. If the Burnley Company created its own styles, furthermore, it could demand that they be restricted to the company.

Should the Burnley Company have arranged for the production of house dresses on the basis described?

3. DOWNING COMPANY

DEPARTMENT STORE—USE OF HIGH-PRICE GOODS AS A MERCHANDISING POLICY

The Downing Company operated a department store selling primarily medium-price merchandise. Almost every department, however, purchased a few high-price articles. Thus in the jewelry department, where women's handbags were carried, two or three handbags might be purchased to retail at from $75 to $100, although most of the rest of this line of merchandise was priced at much lower figures. Likewise in the fur department the buyer might purchase one or two coats to retail at from $800 to $900, although most of the other fur coats in this department were much lower in price.

The vice-president in charge of the merchandising organization of the Downing Company explained the reason for this policy as follows:

> When a man comes to our store intending to buy a handbag as a gift for his wife, he probably expects to spend about $10. After he has seen the $75 or $100 bag in the display case, the bag which he originally intended to purchase appears so mean and cheap by comparison that he probably will purchase a $15 or $20 bag instead. In the fur department the same psychology governs our merchandise policy. A woman may enter the store intending to buy a fur coat at a price somewhere between $150 and $250, but, after catching a glimpse of a $900 coat, she probably will not be satisfied with anything short of a $500 coat, if she possibly can raise the money.
>
> Although it may be necessary for us to dispose of our expensive merchandise at a heavy loss, a great many of our customers are induced to purchase higher-price articles than they had originally intended to buy, and the store makes a greater margin of profit.

Was the Downing Company justified in its use of high-price merchandise?

4. LAMAR COMPANY

GROCERY CHAIN—SALE OF MEATS

Early in 1926 the Lamar Company, a grocery chain in one of the Middle Atlantic states, added a full line of high-grade staple meats to the merchandise already carried. Executives of the company had expected to secure a gross margin on meats of 25% of sales, but primarily because of competition a gross margin of less than 22% actually was obtained. The company was attempting to meet the prices of another grocery and meat chain comparable in size to the Lamar Company. It did not regard as serious the competition of small meat chain companies and unit meat stores.

After three years' experience, the executives of the Lamar Company were undecided whether the company's policy of selling high-grade meats should be continued or whether an attempt should be made to secure a larger gross margin by selling a slightly lower grade of meat at the same prices at which the higher grade had been sold.

The Lamar Company operated 2,500 stores selling staple groceries, dairy products, citrous fruits, and dry vegetables; 175 of these stores sold meats also. The executives of the company planned eventually to establish 600 combination meat and grocery stores, financing the expansion from earnings. While the company had grocery stores within a radius of 250 miles from the company's office and warehouse, all the stores carrying meats were within 20 miles of the warehouse. Total sales of the company were approximately $100,000,000 annually. Sales in the combination grocery and meat stores consisted of about 40% groceries, 40% meats, and 20% fruits and vegetables. Weekly sales in these stores averaged between $2,500 and $3,000. Sales of meats, in March, 1928, were at the rate of approximately $10,000,000 annually.

The company's central cutting-up plant prepared for sale about half the meat sold by the chain. Meat was sent from this plant in whole pieces, and cut up in the stores into the sizes wanted by customers. There was an expert cutter in each store. The cutting of meats required skill to prevent including portions of high-price meats in lower-price cuts, and to guard against large quantities of scraps or unsalable material.

The Lamar Company purchased most of its meats in carload lots from Chicago packers, and a small quantity from local sources

to assure the latters' assistance during periods of temporary shortage. The company could have purchased meat from other countries, especially Argentina, at about 5% less than the prices paid for domestic meats. The domestic meats were of a slightly higher quality than those imported, however, and the Lamar Company purchased domestic meats only. Although the executives of the company did not know where the chief competitor purchased its meat supply, they were certain that this competitor could not purchase the grade of meats bought by the Lamar Company at prices lower than those paid by the Lamar Company.

Since most meats could not be branded, and customers could not detect by inspection the quality of meat, it was not possible to develop customer preference, as had been done for brands of groceries. One of the company's executives believed, therefore, that price was an especially important factor in consumers' purchases of meat. The Lamar Company attempted to meet the prices of its chief competitor and had succeeded to the extent that its prices per pound usually were either the same as, or a cent or two higher than, the competitor's prices. Executives of the Lamar Company believed that the competing chain company had a larger sales volume in meats than was secured by the Lamar Company, and that for this reason it might be operating at a lower expense ratio. They also believed that the competitor was buying a lower grade of meat, and in doing so was obtaining a larger gross margin than the Lamar Company could secure.

The Lamar Company's gross margin on meats was approximately 22% of sales. Operating expenses for the meat sections were slightly over 20% of sales. Officials of the company believed that better handling of meats, especially in cutting, would increase the gross margin. The company, however, could not exercise the same degree of control over meats as over groceries.

Groceries were charged to the stores at retail. Inventories of grocery stocks were taken every six weeks by the store superintendents and the store managers. Whenever the price of a grocery article was changed, a count of this item was taken in each store and checked and approved by a superintendent for accuracy; then the retail value was debited or credited to the store. A store was not credited with unsalable groceries until such merchandise had been inspected and its condition verified by a store superintendent. Each store manager was held responsible for the net value of all merchandise charged to him, less his credits for cash receipts.

A different procedure was necessary in accounting for meats. Since the retail value of a shipment of meats to a store could not be determined accurately, meats could be charged to stores only at cost, and it was impossible to credit a meat store with the cost of unsalable merchandise. The gross margin obtained in a store varied inversely with the quantity of scraps and spoiled meats. Unsalable merchandise could not be entirely eliminated, but a competent meat-section manager was able to keep it at a minimum.

In order to test the efficiency of meat-section managers, the company planned to record shipments to each store by kinds of meats. It was believed that stores receiving like proportions of the different kinds of meats should have similar percentages of gross margin. If one store secured a gross margin of 20%, while another store, which had had the same proportions of the various kinds of meats, obtained a gross margin of 25%, a comparative analysis would be undertaken. Executives of the company believed that the low gross margins usually were the result of high proportions of unsalable meat. Since the Lamar Company made deliveries of meats to stores three times a week and since the stock in the stores was turned twice a week, meat inventories in each store were not large.

The meat stores of the Lamar Company were situated in all but the poorest neighborhoods. Executives of the company believed that people living in slightly better neighborhoods regarded price as the most important factor in buying meats. While some of these people might not be willing to pay the prices of the Lamar Company and therefore would purchase lower quality meats at lower prices elsewhere, the executives believed that many buyers of inexpensive meats preferred to buy the cheaper cuts of high-quality meats.

The Lamar Company had added the line of meats for three reasons. First, the executives had believed that it would be possible to secure large net profits on meats, since they expected a gross margin of 25% of sales, with operating expenses of 20%. Second, it was their opinion that customers desired to purchase all food requirements at one store. Third, competition in groceries was so keen that the spread between the gross margin and the operating expenses was small. Only through a large volume of sales could the company hope to secure substantial profits. The sale of meats was regarded as an important factor in

attracting customers to the Lamar Company's stores and in increasing the sales volume of groceries.

Executives of the company believed that although the high grade of meats sold by the Lamar Company justified higher prices than those existing it would be impossible to build sales volume unless competitors' prices were met. They expected that when the company's reputation for selling high-grade meats had been established it would be possible to raise prices and hence to secure a larger gross margin. In order to secure a large increase in sales volume quickly, however, they were considering the desirability of reducing meat prices below those of the competing company. To be able to reduce prices, the Lamar Company would have to carry a lower-grade line or sacrifice part of its gross margin. The sale of slightly lower-price meats might result in larger profits and thus enable the company to add new stores more frequently. When the sales volume of meats was sufficiently large, approximately $30,000,000 annually, executives expected that the quality and prices of meats could be raised. They estimated that it would be several years before these objectives were reached.

Should the Lamar Company have continued to sell high-grade meats, or should it have sold a lower quality?

5. D. R. ALTON & COMPANY

DEPARTMENTIZED SPECIALTY STORE—PURCHASE OF SEASONAL FASHION MERCHANDISE

Early in January, 1922, the silk dress goods department of D. R. Alton & Company, a women's specialty store, received some calls from customers for sport silks of heavy texture and various weaves. Want slips accordingly were sent to the merchandise office.[1] Similar goods had been sold extensively the

[1] During the first week of October, 1921, the scarf department of Bickford, Strout & Oakman received 18 calls, an average of 3 calls a day, for an all-black silk scarf. The department was well stocked with black silk scarfs with white-striped ends selling for $9.50 and with all-black fiber scarfs retailing at $4.25, but the scarf called for had not been carried in stock for several years.

In view of the frequency of these calls, and in view of the fact that the store made a special effort to maintain as complete stocks as possible, the buyer for the department placed an order for immediate delivery for one dozen all-black scarfs to retail at $9.50. The silk scarfs were received and placed on display, but the last scarf of the original dozen was not sold until late in August, 1922.

In the week following the sale of the last all-black silk scarf there was another call in the department for this scarf, and during September these calls averaged

year before in various grades and colors. From the records of February, March, and April, 1921, it was found that the department had disposed of approximately 3,000 yards of these sport silks at a substantial profit. Although the current trade reports were not stressing sport silks, particularly in the expensive qualities, nevertheless several manufacturers of novelty silks were producing these materials. The silk buyer desired to place an order for sport silks because he believed that they would sell at a profit. The merchandise manager, however, was doubtful as to the desirability of placing the order. Although he agreed with the buyer that the profits from the sales of this silk material during the previous year had been exceptionally favorable, he thought that he could distinguish a distinct trend away from sport silks that would cause a loss from mark-downs if an order were placed.

Sport silks had become popular during the spring season of 1921. Three of the small exclusive specialty shops located approximately six blocks away from D. R. Alton & Company were the first to carry a few patterns, which were sold at high prices. D. R. Alton & Company then purchased about $3,000 worth of these silks in January, 1921. Although it was necessary to sell them at high prices because of their excellent quality, no difficulty was experienced; cheaper sport silks had not appeared on the market.

Early in February, 1921, two specialty stores, competitors of D. R. Alton & Company, advertised similar materials at approximately the same prices. The demand for these high-grade sport silks became stronger during February and increased heavily during March. Toward the last of March, two large department stores carrying medium-price merchandise advertised sport silks at substantially lower prices than asked by the specialty stores. These silks, when investigated by the comparison bureau of D. R. Alton & Company, were found to be much lighter and of poorer quality than the silks which had been on the market before.

The merchandise manager was convinced that sport silks were following a definite cycle of popularity. In an attempt to gauge the situation, however, he spent parts of three days on the

three a week. The buyer for the scarf department was of the opinion that the demand was distorted at times by transient customers, and by shoppers who inquired for merchandise but who would not have bought it even if it had been in stock. As a result of his experience, the buyer asked the merchandise manager for permission to discontinue the use of the call-slip system.

selling floor. At the end of that time he stated to the buyer that he was more convinced than ever that a loss would result if sport silks were purchased. He had observed that the type of customer who had purchased the high-quality sport silks the year before now was inquiring for sport woolens. This apparent tendency toward sport woolens was in accordance with the prediction of several fashion publications. The store's comparison bureau, furthermore, had reported that few patterns of sport silks were being shown in the smaller exclusive specialty shops. The merchandise manager explained to the buyer that aside from the possibility of financial loss the company had its reputation for style leadership to protect.

Contrary to the advice of the merchandise manager, the buyer, when offered a good assortment at an attractive price, placed an order for sport silks amounting to $2,000. The silks were received and placed on sale in February, 1922. Toward the middle of March a few sales were made. After that time only a few yards were sold, and in June the department was obliged to place about half these sport silks on sale at price reductions which resulted in a substantial loss on the entire purchase.

What steps should D. R. Alton & Company have taken to prevent the recurrence of similar merchandising errors?

6. CHASE PATTERSON COMPANY

DEPARTMENT STORE—PURCHASE OF NOVELTY STYLES

Early in the fall of 1921, Mr. Anderson, divisional manager for the women's ready-to-wear departments of the Chase Patterson Company, received a communication from the company's Paris representative requesting him to authorize the purchase and shipment of two dozen evening gowns, which, according to the representative, included novelty styles of rather extreme types. He stated that these gowns were in all cases either originals or exact copies of styles recently created by well-known couturiers.

The Chase Patterson Company operated a large general department store in the shopping district of Boston. The store carried medium- and high-medium-price merchandise, but buyers were instructed to be on the alert for all novelties that were

developed in fashion centers and producing markets, and promptly to add the most desirable of the new styles to their stocks. Such merchandise was then displayed in the show windows in order to develop a reputation for the Chase Patterson Company as being the first store in New England to present new ideas in merchandise.

The divisional manager desired a limited number of Parisian dresses to be used as centerpieces for window and floor displays. He recalled, however, that in a number of instances when novelty styles had been bought, placed on display, and advertised before the demand for those styles had developed fully, large mark-downs had been necessary in order to sell the merchandise. In some cases demand for such goods had not developed until after the store had disposed of the entire stock at substantial reductions.

For instance, in the late fall of 1919, Mr. Anderson had learned that knitted suits in silk, fiber, and wool were in vogue in Paris; and the Paris office had shown decided enthusiasm over the possibilities of this knitted merchandise. Mr. Anderson, consequently, had placed an order in January, 1920, for approximately 800 knitted suits of domestic manufacture ranging in price from $25 to $75, to be delivered early in March. Although the suits were of excellent quality and reasonably priced, they did not meet with the immediate approval of the public. Elaborate window displays and extensive advertising were used in featuring the knitted suits as reproductions of new Paris creations, but the merchandise failed to move. Consequently, in the early part of June the entire stock of knitted suits, from which not over 50 had been sold, was reduced 20% in price. Although this mark-down proved to be an effective stimulus to sales, a further reduction of 15% later was found necessary. By the last of August the entire stock had been sold. It was not until January, 1921, however, that any real demand for knitted suits developed, but it then soon reached sufficient proportions to force the store to re-stock these goods.

Should Mr. Anderson have authorized the proposed purchase of evening gowns?

7. HUXLEY COMPANY

DEPARTMENT STORE—INTRODUCTION OF A NEW FURNITURE STYLE

During the early part of 1928 the president of the Huxley Company, a department store, was considering whether his company should meet what seemed to be a growing interest among American people in modern art styles for home furnishings. Modern art had come into being about the year 1910, and had thereafter been applied to house furnishings in Europe, particularly in Germany, for many years. Modern art was characterized by the use of lines, colors, and lights in ways and manners that at first had been new and unconventional. By 1928, however, modern art was to a large extent conventionalized by widespread acceptance. It was said that modern art expressed the modern traits of freedom, originality, unconventionality, and simplicity.

It had not been until after 1925, however, when an exhibition of modern art in decoration[1] was held in Paris, that any substantial interest in this movement had been evinced by Americans. The exhibition in Paris, held for the purpose of establishing Paris as the world's fashion arbiter, had been attended by many Americans. Within the next few years two large New York department stores had held expositions of modern art in home decorations. In the early part of 1928 a consciousness seemed to be developing in the United States that modern art in furnishings was fashionable.

The Huxley Company was a large and long-established department store in a middle-western city. It prided itself upon its high quality merchandise, its fashion leadership, and its complete assortments. A portion of its clientele were persons of such means that the Huxley Company not infrequently sold original gowns purchased from the leading Paris dressmakers, gowns which retailed for several hundred dollars apiece. Buyers in the Huxley Company were expected to formulate their own opinions as to what would sell, and were instructed not to base their opinions on what other American stores were offering.

The president of the Huxley Company decided that the company should devote a part of its home furnishings stocks to modernistic furnishings. The company already was carrying a few pieces of furniture with modern art characteristics, to meet

[1] International Exposition of Industrial and Decorative Arts, Paris, 1925.

a slight demand that had been manifested among its customers; but it had paid only a little attention to this type of merchandise. The president delegated to the merchandise manager of the home furnishings division the duty of determining what should be done.

The merchandise manager realized that modern art had affected all kinds of furnishings. Since he knew, however, that furniture was the most important factor in furnishing a home, he directed his attention chiefly toward furniture. The merchandise manager realized that modern art, with its unconventional uses of colors, lines, and lights, often resulted in bizarre as well as beautiful effects. Modernistic furniture at times was highly fantastic. The merchandise manager believed that the Huxley Company should carry only modernistic furniture which possessed readily apparent utility.

The merchandise manager saw that it was important, from the point of view of style leadership, for the store to enter into the modernistic furniture field. He was interested also in offering the company's customers complete assortments; and, at the time, it seemed as if modernistic furniture was becoming a part of the assortment a store was expected to carry. The furniture departments of the Huxley Company occupied approximately three floors of the store building, and offered a full assortment of high- and high-medium-grade furniture. The volume of furniture sales of the Huxley Company had increased annually, and the introduction of modernistic furniture was not necessary as a means of maintaining sales volume. The merchandise manager thought, however, that there was and would continue to be, for a few years at least, a demand for this type of furniture. He believed that a display of modernistic furniture would have distinct drawing power. He expected that many people would be attracted to the store through curiosity and would remain to buy the other types of furniture carried by the Huxley Company. The merchandise manager did not plan to establish a separate department for modernistic furniture but rather to carry it in the regular furniture sections of the store. From a merchandising standpoint it seemed necessary to display modernistic furniture in surroundings which also were modernistic. Although this use of ensemble display would single out modernistic furniture from the other furniture, some proximity of modernistic furniture to the other furniture still would exist. The merchandise manager estimated that it would be necessary to devote approximately 10%

of the company's furniture stock to modernistic furniture if a representative assortment was to be offered. Since modernistic furniture probably could be purchased from American manufacturers, it would not be necessary to import much of this merchandise. The merchandise manager had no way of gauging the probable duration of the demand for modernistic furniture. Modern art was being applied also in architecture, painting, music, drama, and other arts; but the merchandise manager could not predict whether this general application of modern art would strengthen and sustain the modern art movement or whether its very universality would doom it. He reasoned, however, that some of the inherent qualities of beauty and utility possessed by modernistic furniture would be accepted and retained by the American public.

The merchandise manager considered two ways by which the Huxley Company could enter the modernistic furniture field. The first method involved the assumption that American people had accepted modern art in furniture as an established fact. Under this plan modern art furniture would be added to the types of furniture handled by the company, some advertising and promotional work would be undertaken, but in general it would be assumed that customers already had the desire to purchase modernistic furniture. A situation which might help to make this first method feasible was that the Huxley Company often contracted to furnish completely a home or a building. In cases of this kind, the recommendations of the Huxley Company's decorating and designing experts carried a great deal of weight.

The second method of presentation which the merchandise manager considered was that of introducing modernistic furniture by means of an exhibition. This appeared to be the better plan for the following reasons: An exhibition of modernistic furniture and furnishings would lead people to believe that the Huxley Company endorsed the modern art movement, and the acceptance of the fashion by an agency looked upon by its customers as a fashion leader would help to establish modernistic furniture with these customers. A large and complete exhibition would be valuable also as institutional advertising. Many people, furthermore, would be attracted by the desire to see this exhibition; and, although these people might not buy modernistic furniture, sales of other types of furniture and also of other merchandise in the store might result.

After a conference between the president and the merchandise manager, it was decided that the latter should go abroad and purchase for exhibition purposes approximately $100,000 worth of modernistic home furnishings, consisting of furniture, draperies, floor coverings, and other decorations. While this merchandise might have been purchased from American manufacturers, the executive believed that domestic makers were getting their ideas from Europe. In addition, the president and merchandise manager thought that the store's clientele would be impressed by the authenticity of a display of merchandise purchased in countries where modern art had originated. The merchandise manager, however, did not change his plan to make practically all subsequent purchases of modernistic furniture from American manufacturers.

8. FARRINGTON COMPANY

DEPARTMENT STORE—PURCHASE OF NEW STYLES OF MISSES' SUITS

The Farrington Company, founded in 1878, was the largest department store in an eastern city. Catering to the high-medium- and high-class trade, it had expanded its business until the annual volume of sales was close to $20,000,000. In the early months of 1924 the buyer of misses' suits had to decide whether more suits were to be purchased for the spring season; a few had been purchased in December.

The net sales of the misses' suit department had been as follows for the two years preceding 1924:

Spring season, 1922	$65,586
Fall season, 1922	22,468
Spring season, 1923	53,832
Fall season, 1923	15,598

It was generally recognized that the last season of large suit sales in this country had been in 1919. The lack of interest in suits since that time was attributed to the popularity of dresses.

In the fall of 1923, suits were worn by women at exclusive resorts, such as Deauville, Nice, and Cannes. In October a Parisian couturier, O'Rossen, brought out a severely tailored suit which proved popular. Soon after, the fashion publications, such

as *Harper's Bazaar* and *Vogue*, began predicting a revival in the popularity of suits for the spring of 1924. The *Dry Goods Economist* said, "Leading among all spring fashions is the revival of the strictly tailored suit. As a veritable rage the O'Rossen suit has found its way to department stores and specialty shops alike."[1]

By the first of January, 1924, practically all the fashion experts and suit manufacturers were aggressively stimulating sales of suits. Salesmen were sending in substantial orders. Some manufacturers who had gone into other lines again turned to making suits. The models shown to suit buyers were quite different from any shown for several seasons previously. The coats were narrowly cut, and they were short. One difficulty with the straight-line, severely tailored suit was that it did not look well on all women. It seemed to be primarily designed for a slim figure. Furthermore, it had to be excellently tailored to look attractive.

While the highest-class specialty shops in the city in which the Farrington Company was located were stocking a few O'Rossen suits, the sales of these suits apparently were not large. The season for suits, in any event, would be comparatively short, the height of the demand coming the week before Easter. Hence the suit buyer could not delay too long if he wished to have a stock of O'Rossen type suits for the spring season.

In view of the apparent trend of fashion toward suits, the buyer for the misses' suit department of the Farrington Company introduced copies of the severely tailored O'Rossen suits.[2] He

[1] Issue of December 22, 1923.

[2] In the second session of the Sixty-eighth Congress, Mr. Vestal introduced a bill providing for copyright registration of designs. This bill read in part as follows:

"SEC. 2. That the term "design" as used in this Act shall include any conception in relation to a manufactured product which is new and original, either as to pattern, shape, or form, in its actual application to or embodiment in such manufactured product for the purpose of ornamentation or decoration, or for adapting such manufactured product for use in reproducing an artistic or ornamental effect, and the phrase "surface design" shall include any new and original conception applied only to the surfce of such manufactured product to improve its appearance . . .

"SEC. 5. That during the term of protection for which any certificate or registration shall be issued hereunder it shall be unlawful for any person other than the owner of the copyright, without license from such owner, to copy the registered design in the class of manufactured product named in the certificate for the purpose of sale or public distribution, or to sell or expose for sale or publicly distribute any manufactured product of similar character to which such design shall, without the license of the owner, have been applied.

"SEC. 6. That the rights secured under the registration provided in Section 1 of this Act shall endure for a term of two years from the date when such registration shall have been completed. At any time before the expiration of the two-year term an extension of the copyright may be registered for a further period of eighteen years to secure a total period of protection of twenty years, upon filing an application for such extension and paying the fees prescribed in section 8 of this Act."

planned to make net sales of $59,000 during the spring season of 1924, which lasted from February 1 to August 1. The actual net sales made in this department during the spring season of 1924 were $45,489, and the maintained mark-up was 24.8% of net sales. The advertising expense increased from 5.9% of net sales for the spring season of 1923 to 6.3% of net sales for the spring of 1924. The merchandise manager in charge of the misses' suit department stated that the failure to attain the planned sales was due to the fact that suits had not proved so fashionable in the spring season of 1924 as the buyer had expected.

Early in the fall season of 1924, several stores in and around New York began selling a combination of a dress and a coat as a unit, called an ensemble costume. This style had been originated abroad and had first been introduced in this country by a number of Fifth Avenue specialty shops in New York City. The buyer for the misses' suit department of the Farrington Company investigated the situation regarding ensemble costumes in the nearby stores. He found that although these costumes had not been purchased by the department stores in large quantities many of the specialty stores were offering them with apparent success.

Should the buyer for misses' suits have placed orders for a substantial quantity of ensemble costumes to be sold during the fall season of 1924?

9. COLEFORD COMPANY

DEPARTMENT STORE—PROMOTION OF NEW STYLE

Early in September, 1929, the merchandise manager and the buyer of the women's and misses' dress department of the Coleford Company's basement store considered what action should be taken in regard to a new fashion development in dresses, namely, longer dresses with fitted lines. At that time, although there had been some consumer acceptance of the new style, the stock of the basement store dress department was made up entirely of short, straight line dresses. The department sold dresses at $4.95, $8.90, and $14.90.

The basement store of the Coleford Company had been established late in the summer for the purpose of selling fashionable merchandise at low prices. The slogan of the basement store was "To Make Fashionable Things Less Expensive and to Make Inexpensive Things More Fashionable." The basement store sold women's and misses' ready-to-wear clothing, underwear, hosiery, millinery, ready-to-wear accessories, shoes, infants' wear, men's and boys' wear, floor coverings, and blankets. The merchandise was of lower quality and sold at lower prices than similar merchandise in the upstairs store. The basement store gave the same services as the upstairs store, including charge accounts, free delivery, and telephone and mail-order accommodations. The executives of the company believed that in 1929 there was a tendency among many women to purchase inexpensive merchandise frequently, whereas in the past they had purchased expensive merchandise infrequently. Even in inexpensive merchandise, however, they wanted up-to-date fashions. The basement store sometimes sold hosiery and knit goods of second or imperfect quality; most of the basement merchandise, however, consisted of regular low-price merchandise. Whereas other basement stores in the city apparently appealed to customers principally on the basis of price, the Coleford Company based its appeals on quality and fashion as well as on price.

During the spring and summer of 1929 there had been indications that the fashion of women's dresses in general was changing from straight lines and short skirts to fitted lines and long skirts. For some time it had been fashionable for evening dresses to be long, and there had been also some suggestion of fitted lines in dresses for formal wear. In the February showings of dresses for summer wear a few Parisian dressmakers had shown afternoon and street dresses with fitted lines, slightly longer skirts, and somewhat higher waistlines. In May the showings of fall dresses by Parisian dressmakers had also included dresses for informal wear with fitted lines and waistlines that were almost normal Although many dressmakers had adopted lengthened skirt designs, a few had displayed skirts which were even shorter than they previously had been. In the summer of 1929 there had been a slight acceptance of the new fashion by retail stores which catered to a high-class clientele and by a few well-dressed women. In the August showings of Parisian dressmakers, dresses with fitted lines, long skirts, and normal waistlines had been displayed quite generally for wear during the winter and spring.

In July, dresses for semiformal wear with the new style features had been displayed by a manufacturer from Hollywood at a meeting of the merchandise managers of a group of stores with which the Coleford Company was associated. The dresses were to be retailed at $16.50 and $18.50. On returning from the group meeting, the merchandise manager for ready-to-wear and the buyer of the upstairs store sport shop had discussed purchasing the new dresses. The sport shop specialized in clothing for sportswear and semiformal wear. The merchandise manager and buyer had decided to purchase some of the new dresses and on August 5 had placed an order for 16 dresses to sell at $16.50 and 28 dresses to sell at $18.50. The dresses had been delivered August 25. In its advertising the Coleford Company asserted that it was the first store in the city to offer the new style dresses. The response was such that on September 10 the buyer ordered 48 more dresses to sell at $16.50.

During the first week of September, several other stores in the city, as well as the misses' dress department of the Coleford Company, had advertised dresses in the new style at retail prices above $59.50. In that week also the buyer for the misses' dress department of the Coleford Company had placed orders for new style dresses to retail at $16.50, $19.75, $25, and $39.50. These dresses had not been received when the basement store was considering the purchase of dresses in the new style.

There was evidence that the new style was being copied rapidly from high-price to lower-price dresses, but by the second week of September only a few manufacturers of dresses to retail at less than $29.50 were making the new style dresses. If the buyer for the company's basement store dress department decided to purchase new style dresses, therefore, she would have to make special arrangements with manufacturers. Other basement stores in the city, which sold merchandise in price ranges similar to those of the Coleford Company's basement store, had not yet stocked any of the new style dresses.

The new style of dress, commonly called the princess, or new, silhouette, differed from the former style chiefly in three respects: dresses were longer, lines were fitted instead of straight, and waistlines were higher or normal. Except for an unsuccessful attempt in 1923 to popularize longer dresses, short dresses, which came into vogue in 1920, had been the fashion until the fall of 1929. When the new style made its first appearance, the dresses

emphasized the extreme characteristics of the style in length, height of waistline, and fitted lines.

The buyer for the women's and misses' dress department in the Coleford Company's basement store reasoned that women would not accept the new fashion readily. Almost without exception the new style dresses made the wearers look several years older than did the short, straight line dresses. With the short, straight line dresses, women had dispensed with foundation garments, which the new style required. It was a question whether women would care to wear such garments again. The short straight line dresses, moreover, were particularly adapted for business and sports wear. The new style was becoming only to tall, slender women and usually was distinctly not becoming to short or stout women.

The longer length dresses, most of which had flared skirts, required almost a yard of additional material as compared with dresses of the short style. It was much more difficult, furthermore, to manufacture a dress that had to be made to give a fitted appearance. Because the wholesale dress market had developed well-defined wholesale price lines, such as $3.75, $6.75, and $10.75, the buyer of the dress department believed that manufacturers would not raise prices but would resort to lower-quality material and poorer workmanship to offset the additional costs of manufacture.

In the opinion of the dress buyer, furthermore, the change in dress fashions also would affect hosiery, millinery, and fashions of hair dressing. She expected that since sales of hosiery, especially silk, had been increased tremendously by the vogue of short skirts, hosiery manufacturers would manifest strong opposition to the new fashion. She believed also that millinery of simple design, which had harmonized with the short, straight style of dresses, might have to be displaced by millinery of more elaborate design. Hats of the latter type would cost more, and the practice of many women of buying low-price hats at frequent intervals might not be easy to change. Finally, short hair was becoming only with short dresses, and it seemed doubtful whether many women would care to wear their hair long in order that they might wear the new dresses.

By September 10, however, the rapid development of the new fashion led the basement manager to believe that the basement store should buy dresses in this style. Other basement stores

apparently were watching carefully for further developments before purchasing dresses in the new mode. At that time, the dress department of the basement store had on hand stocks with a retail value of $8,000 and had on order merchandise with a retail value of $14,000. With the exception of a small number of evening dresses, the stocks on hand and on order comprised short, straight line dresses. The dress department was open to buy $3,000 of new merchandise during the remainder of the month. Planned sales for September in the women's and misses' dress department were $25,000. All the dresses purchased by the basement store dress department were manufactured to its order. Delivery required a week or 10 days from the time an order was placed. To the basement manager, the speed with which the style had been copied down from higher-price imported dresses to moderate-price dresses indicated that it would make its appearance quickly in low-price dresses. He did not expect that extreme variations of the style, such as dresses which reached the ankles, would be accepted.

The basement store dress department could promote the new style dresses by either a gradual or an abrupt shift from the old style to the new. With a gradual shift, a few dresses of the new style would be stocked to fill the demands of customers who asked for them and to prevent giving the impression that the basement store did not carry merchandise of the latest style.

What policy should the Coleford Company have followed in stocking and promoting the new silhouette in the basement store?

How many dresses, if any, of this type should the company have purchased at this time? At what retail prices should they have been marked?

10. PORLOCK COMPANY

SHOE CHAIN—FASHION PROBLEMS

The Porlock Company operated a chain of more than 100 shoe stores, selling medium-price men's, women's, and boys' shoes and such allied lines as hosiery and slippers. The stores were located chiefly in small towns and the suburbs of large cities throughout the East, Middle West, and South. Annual sales amounted to

more than $4,000,000. In January, 1930, the buyers of women's shoes were undecided whether to take advantage of an opportunity to purchase, with exclusive distribution rights, a quantity of Grecian style sandals, a design that had not been sold before in the United States.

Two buyers, under the direction of a merchandise manager, purchased the women's shoes for the company, one specializing in the requirements of the middle-western and southern stores and the other buying for the eastern stores. The two men worked together, however, in the final selection of shoes for the chain. Several years previously, when the chain had become large enough to need two buyers, this division of duties had been made because of the difference in the styles of shoes popular in the East and the Middle West. In spite of these differences, however, the same styles usually were purchased for all stores in the chain, although occasionally a style popular in a certain district was made up for that district only. Shoes were stocked in the company's warehouse, and shipped to the stores twice a week, as the stores' sales showed the need of additional stocks. In general, manufacturers designed the shoes the company sold, although the buyers often suggested changes in the designs submitted for approval and in a few instances suggested original designs of their own. The designs usually were copies of shoes sold in exclusive Fifth Avenue shops, in styles that seemed to the manufacturers to be accepted or likely to be accepted by the public. The copies were reproduced in less expensive leathers and with machine workmanship instead of handwork.

About the middle of January, 1930, an importer of shoes offered to the buyers of the Porlock Company a quantity of Grecian style sandals manufacture in Czecho-Slovakia. Sandals in this style had not been offered before in the United States but had been popular at European resorts during the previous season. They were fashioned with the upper part almost completely cut away and with only enough straps to hold the sandals on the feet. The price was sufficiently low to enable the company to sell them for $4. If the Porlock Company would purchase a supply of the sandals, the importers offered not to sell them to anyone else in the country during the spring of 1930 with the exception of a few large department stores. The importers promised delivery in time for the sandal season, which in the South started about February 1 and reached its height in April and May,

and in the North came in May and June. Sandals in styles which the Porlock Company had sold formerly and already had stocked for 1930 were in four color combinations: black and white, brown and white, beige and white, and beige and brown. The Grecian sandals were brown and white only.

Although the company already had placed orders for 50,000 pairs of sandals, approximately the number sold during 1929, the buyer for the East believed that the company should order 5,000 pairs of the Grecian sandals. He expected that since the company was increasing the number of stores it operated it could sell 5,000 more pairs of sandals in 1930 than it had in 1929. Both buyers believed that the sandals would prove popular during the spring of 1930 and that by the spring of 1931 they would be sold in every type of shoe store, even at prices below $4, so that it would not be profitable for the company to stock them then. The company obtained such a low mark-up that it always had had to restrict itself to styles which other firms had experimented with and which showed distinct promise of popularity. The buyer for the western division concluded, therefore, that the company could not afford to experiment with unaccepted styles. The buyer for the eastern division stated, however, that the shoes which were copies of exclusive Fifth Avenue fashions were received by the public as soon as the Porlock Company stocked them. He drew the conclusion that fashions were the same among all classes at approximately the same time and, consequently, that the Porlock Company could introduce a style as well as any other company could, provided the buyers showed sound judgment in its selection. On the other hand, the western buyer concluded that the period of one to two months elapsing from the time an order was placed for shoes until they were stocked in the company's stores was sufficient to allow customers to become familiar with and accept the newer fashions, since during that time they had an opportunity to see them in the exclusive shops, in the movies, or in fashion magazines. It was his opinion that, although only a month or two might be required for the exclusive styles to become popular, there would be more risk in the introduction of a new style than in the introduction of a copy of a style accepted by the clientele of exclusive Fifth Avenue shops.[1]

[1] The stylist in a large middle-western department store which sold merchandise of medium grade believed that the city in which the store was located was about two weeks behind New York in its acceptance of fashions. The merchandise man-

The buyers for the Porlock Company had found that there were distinct differences between the styles popular in the Middle West and those accepted in both the East and Far West, where styles were popular at approximately the same time. These differences existed with respect to type of last, use of colors and ornaments, and type of heel. The Porlock Company stocked women's shoes, except sandals, in five types of last: extremely narrow, narrow, medium, wide, and square. All sandals were produced on only one type of last. In January, 1930, extremely narrow lasts for women's shoes were popular in New York; narrow or medium lasts in New England; and medium, wide, and, infrequently, square lasts in the Middle West and South. The buyers had found that fashions in lasts were popular in the Middle West about a year later than in the East and had concluded that in 1931 narrow lasts would be fashionable in the Middle West, while by that time wider ones might be the vogue in New York. The Middle West demanded more colors and ornaments, such as shiny buckles and extra straps, than did the East, and furthermore preferred Cuban heels to the spike heels popular in the East; spike heels were high and slender, whereas Cuban heels were lower and broader. The buyers had been unable, however, to determine any definite trends in these preferences. As a result of these differences in the requirements of the two regions a style could not always be adapted to both. For instance, a design that would look well in the conservative colors and lines and the narrow last popular in the East might not look well when given more ornamentation and adapted to wider lasts for the Middle West. Slight variations in design were adopted when possible in order to make one type of shoe popular in both regions. In some cases the only difference was in the kind of buckle used.

Another problem facing the buyers in January, 1930, was that of deciding on the colors to order for the spring season. Previously, the company had stocked in all its stores a style of brown kid spike heel pump in a medium last. About January 1, when

ager for the ready-to-wear division of a high-grade department store in the same city believed that the city accepted new fashions as soon as New York did.

The merchandise manager of the ready-to-wear division of a high-grade department store on the Pacific Coast believed that his city accepted fashions as quickly as did New York and, in some instances, antedated New York in its acceptance. He cited the fact that during the fall of 1928 a style of dress that later became popular in New York had been popular in his city before it was even introduced in New York. He suggested that this lead in fashion over New York was due to the fact that his customers were in closer contact with Hollywood, which was becoming increasingly important as a source for new styles.

stocks had become depleted, it had reordered pumps in the same design but in almora, a lighter shade of brown. Furthermore, for the eastern region it had reordered that style in a narrow last, whereas it continued the medium last for the Middle West and South. The buyers had decided to fill in with almora pumps the broken sizes in the line of brown pumps rather than to collect and redistribute the brown pumps to a few stores so as to give a complete range of sizes in these stores while the almora pumps were stocked in the other stores. As a result of the policy decided on, the salesmen and store managers were faced with the problem of selling the brown pumps in competition with the new almora pumps, neither being stocked in a complete range of sizes. If, on the other hand, they had redistributed the brown pumps to a few stores, the managers of those few stores would have found it almost impossible to secure sales comparable to those of the stores selling almora pumps.

The buyers did not expect the almora shade to remain in fashion after the middle of February. By the middle of January they were already receiving deliveries of similar styles in suntan, which the buyers expected to be popular from the middle of February to the middle of March, when they expected beigeclaire to become popular. Suntan was a ligher shade than almora, and beigeclaire was lighter still. In the summer an even lighter shade, Lido, was expected to be popular. If each color was used to fill in during the season of its popularity the broken sizes in brown and almora pumps, the buyers could expect that by the end of the spring season, June 1, many stores would have odd sizes in each of the four colors: brown, almora, suntan, and beigeclaire. They decided, therefore, that in order to prevent this accumulation of odd sizes in so many shades they would collect and redistribute to a few stores the chain's stock of brown and almora pumps, giving the other stores complete stocks of suntan pumps. They planned furthermore to use beigeclaire pumps later to fill in those sizes of suntan pumps which had been sold. The buyers believed that a color was likely to be popular throughout the country at the same time, since the colors promoted during a given season were usually those decided on by leather tanners and dealers. Since the spring season started earlier in the South than in the North, however, the chain would have to stock the suntan pumps in the South about the first of February, and in the North not before the first of March. A further complication arose from

information the buyers had received from the district supervisor in Texas to the effect that suntan would not be popular in Texas during the 1930 season.

As an aid to the planning of purchases, the buyers were provided with information included in three sets of reports compiled by the company's statistical department from reports mailed in from the individual stores twice a week. For purposes of analysis the records were prepared on a weekly basis. The reports of the statistical department were available about two weeks after the close of the period covered by the stores' reports. The first set of reports showed the sales and stocks by periods for each style number in each store. The second report gave sizes and widths by periods for each style sold for the chain as a whole. This report also gave the number of shoes sold by periods and the number on hand at the end of every period classified by size, width, and style. The third report showed the total sales by periods according to size and width in the following six classifications: McKay Spike Heel, McKay Cuban Heel, Welt Cuban Heel, Welt Low Heel, Sport, Corrective.

Should the Porlock Company have placed orders for the Grecian sandals? In the event that this merchandise was purchased, should it have been stocked in all stores or only in the stores in selected localities?

To enable the buyers better to cope with fashion changes, should any additional information have been furnished them by the stores?

11. BIXBY COMPANY

DEPARTMENT STORE—FORECASTING FASHIONS IN COLORS

The Bixby Company, a department store with annual sales of approximately $30,000,000 in medium- to high-grade merchandise, employed two stylists. The duties of the stylists were to forecast fashions in designs, colors, and fabrics, and on the basis of these forecasts to make advisory recommendations to merchandise managers and buyers for the guidance of the buyers in purchasing. The scope of their duties covered the entire store. During the early part of February, 1929, the stylists recommended that the coats purchased at this time be distributed according to color

approximately as follows: 40% brown, 30% black, and 10% each of blue, green, and red. Although buyers usually followed the stylists' recommendations, they were not required to do so; and the buyer of women's and misses' coats took issue with these recommendations.

Since most of the styles in women's apparel which later became fashionable in the United States originated in France, particularly in Paris, the stylists made periodic trips abroad. Although they attended the opening displays of the leading Paris dressmakers and purchased a few gowns for sale in the Bixby Company or for use as models in the production of cheaper dresses, the stylists restricted their activities in the main to observing fashion trends. While in France, the stylists went to the outstanding resorts, such as Biarritz and the Riviera. If some of the well-dressed women were wearing a color that was either new or different from those colors which a majority of women were wearing, the stylists concluded that this was a high-style color, that is, one not yet accepted by many people. Since a high-style, if it reached the United States, usually arrived a year after its appearance abroad, the stylists noted a high-style color for future use only. The stylists reasoned, on the other hand, that the colors which a large proportion of the women were wearing would be popular in the winter resorts of the United States at the same time. In addition to the observations of its stylists the Bixby Company also received constantly, from its foreign office, information concerning current fashions, as observed at theatres, resorts, and sporting events, and current displays of the leading Paris dressmakers and shops.

Recommendations on colors that were popular in France, or that gave evidence of becoming popular, were transmitted by the stylists and the foreign office to the buyers of the Bixby Company. On the basis of this information, together with a knowledge of the colors which were being carried over from the preceding season and of those which had been purchased for southern wear during the early winter, the company offered, during the first part of January, assortments of garments and accessories suitable from a fashion standpoint for wear in the South. The colors which sold well at this time were regarded as colors which probably would be popular during the spring. A further indication of the trend of fashion in colors was obtained by the stylists through winter visits to southern resorts in the United States.

The stylists also observed the colors of garments which were shown in high-grade New York stores and which were worn in New York during the winter. If certain stores or a few well-dressed women apparently had decided at that time that a particular color or shade was the fashion, the stylists believed that this color or shade had a good chance of becoming popular for spring and summer wear. The fact that a certain color had been chosen by a few well-dressed women did not prove conclusively, however, that this color would become popular. Every noticeable concurrence of opinion on a style by a few Paris dressmakers, by several New York stores, or by some well-dressed women, was regarded by the stylists as indicating a possible popular fashion. A color sponsored by a single New York store with a reputation for style leadership might be regarded sometimes as a potential fashion. Frequently the Bixby Company purchased and displayed only a few garments in each color in order to test the reactions of its customers. Gradually, as the season advanced, some colors failed and disappeared, others met with a slight demand, and a few others became popular.

During the winter of 1928 and 1929, the stylists of the Bixby Company noted that some women in New York were wearing fur coats made of summer ermine. Summer ermine was of a shade that was classified as off-white. These coats apparently were a development of a tendency which had manifested itself during the fall toward wearing dark colored coats trimmed with furs of off-white shades. From this fact the stylists reasoned that coats made entirely of this off-white shade, or coats of colors which harmonized with trimmings of this shade, would be popular in the spring. They did not believe, however, that this shade would become popular until after Easter.

In February the stylists also considered whether colors and shades which had arisen from the sun-tan vogue would achieve wide popularity. These colors and shades were the fashion at southern resorts during the 1929 winter season. Garments and accessories of these colors and shades also had sold well in the Bixby Company during January. The stylists believed that this vogue had originated in France the previous year, and that it had been prevalent in the United States to a limited extent during the previous summer. Sun-tan shades commonly were off-white shades which blended well with tanned complexions. The stylists were of the opinion that sun-tan shades were adapted primarily

for wear during warm weather and that there was little likelihood that these colors would become popular until spring or summer.

In submitting color recommendations for spring coats, the stylists explained that, while there would be a substantial demand for black coats because of their staple character, brown shades would be the most popular color. Because brown was universally adaptable, it had been for several years in wide demand. Many shades of brown harmonized not only with other shades of brown but also with many other colors. Brown, furthermore, could be worn with dresses of printed materials, which promised to be popular during the spring. The light shades of brown were classified also as off-white shades. The other three selected colors, blue, green, and red, were chosen primarily with a view to having coats of these colors to meet the occasional demands which usually were manifested for them. Blue had been worn in France by a few people, and the stylists considered it a new high-style color, unlikely to become fashionable during the spring season.

The Bixby Company wished to be certain that when it sold a garment, such as a coat, the customer could obtain a dress, hat, and accessories which harmonized with the coat. After the stylists' forecasts were made, therefore, the entire store was merchandised, as far as possible, in accordance with their recommendations. In some instances, however, market conditions prevented close adherence to the recommendations; in such cases the buyers bought merchandise which most nearly approached the forecast colors. The expected importance of a color determined the proportion of promotional effort given to it in window displays and newspaper advertising.

Since coats were manufactured to the company's order, several weeks ordinarily elapsed between the placing of the orders and the receipt of the merchandise. It was necessary, therefore, that the stylists forecast color fashions approximately six weeks in advance. The February recommendation of colors for coats probably would be revised as the season advanced and as the stylists obtained additional information. The stylists expected to recommend that coats purchased for sale after Easter be of an off-white shade.

At the time recommendations were made to the buyers, the stylists also furnished charts or swatches of the shades of colors which they thought would be the most popular. The fact that a color was popular did not mean that every shade of this color was popular. It was necessary also to guard against shades that

did not harmonize with other colors and shades. For these reasons the stylists advised buyers in regard to the best shades of each color, but did not attempt to set up the definite proportions which should be purchased in each shade. Usually four shades of each color were selected by the stylists. Samples of the desired shades were pinned together and given to all the buyers, who, when they were placing orders, were expected to secure merchandise of colors and shades which corresponded to these samples. If a buyer was unable to find merchandise of the colors and shades desired, he selected those which in his opinion were most closely in agreement. By these means it was sought to achieve similarity of colors and shades to a large measure throughout the store.

The buyer of women's and misses' coats disagreed with the recommendations which the stylists made in February, 1929, concerning colors of coats. The buyer believed that the colors of coats purchased at that time should be in the following proportions: 40% blue, 40% black, 10% brown, and the remainder in other colors. Coats ranging in price from $29.50 to $175 were sold in the women's and misses' coat department of the company. Few coats, however, were sold at prices above $125. The buyer of women's and misses' coats based his disagreement on the contention that a majority of the customers of the Bixby Company were of the middle class and would not purchase coats with advanced fashion characteristics. In the past, many customers had come into the coat department asking for coats that were distinctive and different in style features. On seeing coats of this type, however, almost invariably they had decided that they would be conspicuous if they wore the coats, and they had selected coats of conservative styles.

This buyer believed that the stylists placed too much emphasis on advanced and extreme fashion tendencies and did not give enough consideration to the demands of the average customer of the company. The buyer believed that blue and black were the only colors which customers regarded as standard, that is, colors that could be worn with a dress of any color or on any occasion. He thought that the Bixby Company's stylists were successful in forecasting color trends but not in predicting the degree of demand for each color, since they overemphasized the importance of new color trends.

The coat buyer declared that it was difficult to secure color harmony throughout the store. He believed that the only possible method of obtaining such harmony among coats, dresses, shoes, and accessories would be to have manufacturers agree upon certain colors and shades. In 1929, manufacturers of materials for both dresses and coats were not attempting to produce the same colors and shades. In the buyer's opinion, the swatches of colors and shades furnished by the stylists served only as guides. It was difficult to secure merchandise of colors and shades identical with the samples, and the buyer could do no more than select the colors and shades which resembled the samples most closely. In regard to actual cooperation on color harmony among the departments, the coat buyer stated that only in a few instances had buyers of other merchandise examined the assortments of coats in the coat department with the idea of promoting color harmony. The buyer also believed that many customers did not seek similarity of colors and shades in their clothing, but rather contrast. The coat buyer also stated that, although color was an important factor in the selection of coats by customers, it was not the only important factor. Customers also were interested in material, workmanship, fit, and price. While a customer might visit the coat department with definite ideas as to what she wanted in each of these particulars, she was willing to modify her desires on one or more of the factors if the other qualities were present in a coat.

The coat buyer always attempted to avoid the color discord that would arise from having coats of off-shades. An off-shade of a color occurred when the color was neutralized to some extent by another color in the material. For instance a yellowish tinge in green and a greenish tinge in blue often made these two colors off-shade. Off-shade colors seldom harmonized or contrasted with other colors. The coat buyer guarded against off-shades when selecting coats, and refused to accept delivery on coats of off-shade colors.

Early in June, 1929, the buyer of women's and misses' coats analyzed sales by colors during the spring season. He found that colors of the coats sold had been in the following proportions: 45% blue; 45% black; and 10% mainly brown, with some red and green. In the opinion of the buyer, the other factors, such as material, workmanship, fit, and price, had been equal for all colors.

Should the Bixby Company have modified its procedure for forecasting the popularity of colors?

SECTION VIII

PRICING

SUGGESTED READING

BORSODI, *The Distribution Age.*

BRISCO & WINGATE, *Retail Buying*, Chaps. IX, XV–XVI.

CLARK, *Principles of Marketing*, Chaps. XX–XXII.

Controllers' Congress of the National Retail Dry Goods Association, "Application of Mark-down Study to Store Operation" (*Report and Digest of the Proceedings, Ninth Annual Convention*—1928, pp. 35–39).

———"Cooperative Beginnings in Mark-down Control" (*Report and Digest of the Proceedings, Seventh Annual Convention*—1926, pp. 15–18).

COPELAND, *Principles of Merchandising*, Chap. XI.

———"Standardized Resale Prices" (*Harvard Business Review*, July, 1926).

ELY & Others, *Outlines of Economics* (4th Ed.), Chaps. X–XI.

FILENE, *More Profits from Merchandising*, Chap. II.

FREY & NYSTROM, *Merchandise Control* (Alexander Hamilton Institute, Modern Merchandising Texts, Vol. IV), Chaps. X–XII, pp. 315–318.

FRI, *Retail Merchandising*, pp. 315–325.

HAHN & WHITE, *The Merchants' Manual*, Chap. XXVII.

HAYWARD & WHITE, *Chain Stores* (3d Ed.), Chap. X.

JENKS, *The Science of Business* (Alexander Hamilton Institute, Modern Merchandising Texts, Vol. I), Chaps. XII–XIII.

MARSHALL, *Principles of Economics* (8th Ed.), Bk. V, esp. Chaps. I–III, VIII, XI, XIII.

MAYNARD, WEIDLER, & BECKMAN, *Principles of Marketing*, Chaps. XXVIII–XXIX.

Merchandise Managers' Division of the National Retail Dry Goods Association, *The Buyer's Manual*, Chaps. VII–VIII.

———*The Markdown Manual.*

NYSTROM, *Economics of Retailing* (3d Ed.), Vol. II, Chap. XV.

SEAGER, *Principles of Economics* (3d Ed. Rev.), Chaps. XVII–XVIII.

"Some Legal Aspects of Merchandising—Limitations on the Rights of Vendor and Vendee" (*Harvard Business Review*, April, 1926).

TAUSSIG, *Principles of Economics* (3d Ed., rev.), Bk. II, esp. Chaps. X, XVI.

1. TOBAL COMPANY

DEPARTMENT STORE—PRICE MAINTENANCE

In the spring of 1925 the buyer for the toilet goods department of the Tobal Company's department store contemplated using as one of the loss-leaders for a special sale a nationally advertised tooth-paste. The management made it a policy to meet competitive prices on all articles and, for that reason, maintained a corps of shoppers to ascertain merchandise prices in other department stores in the city. Competing stores occasionally advertised in the Sunday papers standard nationally advertised products at cut prices. When this happened, the Tobal Company, on the following Monday morning, reduced the prices of identical merchandise to the level of the cut prices of the competing stores.

The Tobal Company's store was located in a city of approximately 1,000,000 inhabitants. In 1924 the store's sales amounted to about $15,000,000. The price appeal was principally emphasized. The Tobal Company expected each department manager to conduct special sales of merchandise at low prices at specified times throughout the year.

In the spring of 1925 it occurred to the buyer for the toilet goods department that Stokes tooth-paste might prove an effective loss leader for a special sale. In ten years no store in the city had reduced the price of that brand of tooth-paste below the suggested retail price; during that time the Stokes Company had advertised its products nationally.

The toilet goods department, which was located on the main floor of the store, sold tooth-pastes, soaps, perfumes, powders, tooth-brushes, hair-brushes, combs, cosmetics, and similar merchandise. The department maintained an average stock of $30,000 at retail. In 1924 the rate of stock-turn for the department was 5 times, the average original mark-up 30% of selling price, and the expenses 26% of net sales.

Competition on toilet articles in the city was keen. For that reason the store sold approximately one-half its toilet articles below the manufacturers' suggested retail prices. In no instance, however, had the Tobal Company made the initial cut in prices on toilet goods.

The products of the Stokes Company had been advertised nationally and were better known than were the products of many competing manufacturers. Department stores usually purchased Stokes products directly from the Stokes Company; the price for Stokes tooth-paste in the 50-cent size was $4.50 a dozen, less trade discounts of 10% and 5%.

The Stokes Company had made a definite attempt to maintain resale prices on all its toilet articles. The method used varied with the circumstances in different stores. Commonly, the manufacturer's representative explained that the manufacturer expected the buyer to maintain the usual resale price on each article purchased and assured the buyer that the resale price would be maintained by all department stores and drug stores in the city.

The buyer for the toilet goods department of the Tobal Company was sure that a sale of Stokes tooth-paste at 39 cents for the 50-cent size would attract attention among the store's customers. No price maintenance agreement had been made by the Tobal Company with the Stokes Company,[1] and there was no question in the buyer's mind as to the store's legal right to cut the price on Stokes tooth-paste.[2]

[1] "Price maintenance is the arrangement by which manufacturers of identified merchandise, made and sold under competitive conditions, agree with some or all the distributors of this merchandise concerning the price at which it is to be resold."—Cherington, P. T., "Discussion of Price Maintenance," *American Economic Review*, VI, Supplement (1916), pages 199–200.

[2] At common law in England and in many of the states of the United States as regards intrastate commerce, agreements exacted by manufacturers and wholesalers that a dealer will maintain a certain price are valid (13 Corpus Juris 483 at note 39). The same is true in the countries of Continental Europe (Davies, *Trust Laws and Unfair Competition*, see index under Resale prices, foreign decisions). The Federal courts in the United States have taken the stand that contracts with this end in view are in restraint of trade and void, if not at common law, at least under the several anti-trust acts (Schaub and Isaacs, *The Law in Business Problems*, pages 277–280; note particularly *Dr. Miles Medical Co.* v. *John D. Park and Sons Co.*, 1911, 220 U. S. 373; *U. S.* v. *Colgate and Company*, 1919, 250 U. S. 300; *U. S.* v. *A. Schrader's Sons, Inc.*, 1920, 252 U. S. 85; *Bobbs-Merrill Co.* v. *Straus*, 1908, 210 U. S. 339).

There is, of course, no difficulty about dictating prices to those who are agents in the technical sense of the term (13 Corpus Juris 483 at note 42; cf. *Standard Fashion Co.* v. *Magrane-Houston Co.*, 1918, 254 Fed. 493). Nor is there any doubt that a mere refusal to sell for any reason or no reason is within the rights of the manufacturer (*Great Atlantic and Pacific Tea Company* v. *Cream of Wheat Co.*, 1915, 224 Fed. 566). On the other hand, where the refusal is accompanied by acts and circumstances tending to show the existence of an implied contract to maintain prices, it is possible to find, as a matter of fact, that such contract exists (*Frey and Son* v. *Cudahy Packing Co.*, 1921, 256 U. S. 208). Even in the absence of such a contract, if the Federal Trade Commission or other fact-finding body sees in an arrangement a roundabout method of accomplishing the same end as that of such a contract, it is difficult for the courts to avoid the conclusion of illegality (*Federal Trade Commission* v. *Beech-Nut Packing Co.*, 1922, 257 U. S. 441). Though the Federal Trade Commission has recommended to Congress that price maintenance be allowed, subject to the control of some administrative body (Swenson, *National Government and Business*, page 435), in the absence of such legislation it has been showing a tendency to discover and prohibit price-maintenance arrangements of all kinds (compare the Butterick and Vivaudou cases in Volume VI of the Federal Trade Commission's Decisions, pages 310 and 491).

The following proposed legislation was introduced in Congress in the latter part of 1925.

THE CAPPER-KELLY BILL

69th Congress
1st Session

H. R. 11

IN THE HOUSE OF REPRESENTATIVES

December 7, 1925

Mr. Kelly introduced the following bill; which was referred to the Committee on Interstate and Foreign Commerce and ordered to be printed.

A BILL

To clarify the law, to promote equality thereunder, to encourage competition in production and quality, to prevent injury to good-will, and to protect trade-mark owners, distributors, and the public against injurious and uneconomic practices in the distribution of articles of standard quality under a distinguishing trade-mark, name, or brand.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That in contracts relating to the sale or resale of an article of commerce, the genuineness of which is attested by the trade-mark or special brand of any grower, producer, manufacturer, or other trade-mark proprietor, who is in fair and open competition, actual or potential, with other growers, producers, manufacturers, or owners of similar or competing articles, which contracts are made by the owner of such articles, hereinafter referred to as the vendor, with wholesale or retail dealers, hereinafter referred to as vendees, whenever such contracts constitute transactions of commerce among the several States, or with foreign nations, or with or in any district or Territory subject to the jurisdiction of the United States, it shall be lawful for such vendees to agree to sell such articles at the prices prescribed by such vendor and such agreements shall not be construed as against public policy or in restraint of trade or in violation of the Act of Congress of July 2, 1890, or of any of the Acts supplemental thereto: Provided,

(*a*) That any such article may be sold by the vendee at a price other than that prescribed by the vendor (1) if such vendee shall in good faith discontinue dealing in such article, or (2) if such vendee shall cease to do business and shall propose to sell such article in the course of discontinuance of such business, or (3) if such vendee shall have become bankrupt or a receiver shall have been appointed for his business: Provided, That such article shall have first been offered to such vendor by such vendee or his trustee in bankruptcy or receiver at the price paid therefor by such vendee, and that such vendor, after reasonable opportunity to inspect such article, shall have refused or neglected to accept such offer.

(*b*) That any such article which shall have become damaged or deteriorated in quality may be sold by such vendee at a price other than that prescribed by such vendor: Provided (1) That such article shall have been offered to the vendor either in exchange for a new article of the same kind, or at a price paid therefor by such vendee, and (2) that such vendor after reasonable opportunity to inspect such article, shall have refused or neglected to accept such offer, and (3) that such article shall be sold by such vendee only with prominent notice to the public that the price of such article has been reduced because it is damaged or deteriorated in quality, as the fact may be.

Nevertheless it was possible that if the price of Stokes tooth-paste were cut the manufacturer might succeed in making it necessary for the Tobal Company to purchase that brand in the

future from local or out-of-town wholesalers at only 10% discount from the list price.

Should the buyer have reduced the price of Stokes tooth-paste for a special sales event?

2. HOWARD, BELL & FERMAN

DEPARTMENT STORE—MEETING COMPETITION[1]

In their efforts to uphold the store's policy of maintaining prices as low as those charged by competitors for identical articles or for similar merchandise of comparable quality, the buyers for the department store of Howard, Bell & Ferman frequently had to determine what constituted directly comparable merchandise and to decide how to meet price competition on merchandise which was in the main similar to that carried by competitors, but which had some differences not apparent to the casual observer.

For instance, the head of the comparison office informed the buyer for the lingerie department that, according to an advertisement in the morning papers, Blaisdell & Sons was underselling her department on women's light-weight white nightgowns. A shopper who was sent to investigate reported that the lingerie department of Blaisdell & Sons was offering for $1.75 each approximately 25 dozen nightgowns, in a full run of sizes, which were identical in material and workmanship with the nightgowns which Howard, Bell & Ferman was selling for $2.50 each. The shopper stated, however, that at least 90% of the nightgowns offered by Blaisdell & Sons were made with V-necks, and that only 10% had the more popular round and square necks.

The lingerie buyer for Howard, Bell & Ferman found that her department had on hand 20 dozen of the light-weight white nightgowns, which had been selling successfully at the normal mark-up. Of this number, 18 dozen had round or square necks and 2 dozen had V-necks, which, according to the salespeople, had lost favor with the public about 6 months previously. The buyer questioned the extent to which the style element was a factor in the purchase of merchandise of this type. She was informed by the head of stock, however, that although no fill-in

[1] See case of R. H. Macy & Company, Inc., page 260.

orders had been placed for V-neck nightgowns for more than six months, the nightgowns cut with square or round necks had been reordered several times during that period.

Since the department had no other nightgowns on hand which could be used in meeting the competitor's price, the head of stock was in favor of ignoring the competition and maintaining the original price of $2.50 on the entire stock. She considered the differences in style sufficient to distinguish this merchandise from the competitor's and to make it worth the higher price. The head of the comparison office, eager to have the store meet all competitive prices, asked that the entire stock be reduced to $1.75 because, in his opinion, the style difference was so slight that the merchandise should be regarded as identical with that sold by Blaisdell & Sons. The assistant buyer suggested that the 2 dozen nightgowns with the V-necks should be reduced to $1.75 to meet the competitor's price, but that the original price of $2.50 should be retained for the 18 dozen nightgowns with square or round necks.

Should the buyer for the lingerie department of Howard, Bell & Ferman have made any change in the price of nightgowns?[1]

3. BERKELEY & CLARENDON

DEPARTMENT STORE—DETERMINATION OF RETAIL PRICES

Shortly before the opening of the fall season, Berkeley & Clarendon, a company operating a department store, received the invoices for two lots of silk blouses ordered several weeks previously. The buyer for the waist and blouse department inspected the merchandise and made certain that it conformed to the stipulations he had made at the time of placing the order as regarded quality, assortment of colors, and range of sizes. It then devolved on the buyer to note on the invoices the retail

[1] According to a news story in *Women's Wear Daily* early in 1927, Adam L. Gimbel, executive head of Saks-Fifth Avenue, advocated the abolition of comparison shopping bureaus in retail stores. He said that Saks-Fifth Avenue had not had a comparison shopping bureau since the first six weeks of its opening approximately two years previously. Mr. Gimbel gave as his reasons the following:

"When it is all analyzed the difference in the price of merchandise on the average between the various stores is so slight that it has no effect on the consumer. What if the difference is 5 or 10 cents? It is not enough to warrant the stores' going to all the expense of having shoppers keeping tabs on their competitors' prices."

prices at which these blouses were to be sold, so that the merchandise might be marked, since it was the company's policy to have buyers retail invoices rather than orders.

Although these two lots of silk blouses had been purchased from different sources, the cost prices were nearly the same. One lot was billed at $5.95 each, 4% 10 days, net 60 days, and the other lot was billed at $6.20 each, 5% 10 days, net 60 days. In each lot the size range and color assortment were satisfactory. The first lot consisted of 325 beaded crêpe de chine blouses in plain colors, and the second lot was made up of 290 canton crêpe blouses in fancy Egyptian designs.

Exactly comparable merchandise had not as yet been placed on sale for the fall season by competing stores, and changes in price levels and style preferences during the previous 18 months had been such that the buyer was unwilling to base the retail prices on his records of sales according to price classifications.

The planned gross margin of the waist and blouse department for the fall season was 30% of net sales. The buyer, however, could exercise his own judgment as to whether all goods should bear a uniform initial mark-up and as to whether merchandise should be priced in odd figures or at the nearest round numbers. During the fall season of the previous year, total direct and indirect expenses of the waist and blouse department had been 28.7% of net sales, gross margin 29.2%, mark-downs 10.6%, and rate of stock-turn 3.2 times. During the same season a net profit of 4.5% had been obtained on the sales of the store as a whole.

Net sales of Berkeley & Clarendon during the previous fiscal year had been approximately $14,400,000. In the women's ready-to-wear departments it was the aim of the management to sell merchandise that was popular rather than distinctive in style. Special efforts were made to secure a rapid rate of stock-turn in order to minimize losses from style changes.

The practice of loading was followed in the Berkeley & Clarendon store, buyers being expected to secure a discount of 6% on the billed cost of merchandise. Any amount by which the discount required exceeded the discount actually secured was added to the billed cost in arriving at the figure at which merchandise was charged to departments. Discounts were not shown as departmental earnings.

The buyer did not contemplate holding a special sales event for the two lots of silk blouses, but intended to sell them during

the regular course of the fall season. Normally he did not plan to carry more than a minimum stock of silk blouses over from one season to another, although this might be done with some staple, plain-color blouses. It appeared probable that the fancy Egyptian designs would be considerably more popular, during the early part of the fall season at least, than the plain beaded blouses.[1]

[1] A cotton manufacturer noticed, in passing the display windows of the Porter Company, a general department store, that ginghams which his mill manufactured were priced at 2½ times what they were sold for by the mill's selling agent. Knowing the cotton dress goods buyer for the Porter store, this manufacturer went to the department where the ginghams were on sale and requested an explanation as to why his goods were priced so high. The buyer told him that these particular ginghams represented a style line that would probably be closed out at the end of the season at a loss. Consequently, in order to make this merchandise show a profit, it had been given a high rate of mark-up at the beginning of the season.

The cotton manufacturer was still dissatisfied and asked to see the president. He told this executive that, by marking the ginghams at 2½ times what they cost, the store was slowing up the sale of this merchandise and clogging up the channels of distribution. (For a more usual, and sharply contrasting, attitude of a manufacturer toward department store price policies, see case of the Tobal Company, page 341.)

Up to the time when the cotton manufacturer complained, the Porter Company had had no definitely formulated price policy. It was generally understood among the buyers and merchandise executives that they were to charge the highest prices consistent with the building up of a large sales volume for the store. The criticism of the cotton manufacturer, however, aroused some discussion among the merchandise executives and buyers.

One group stated that the Porter Company ought to charge the same prices as competitors, and that unless the firm regularly met competitors' prices its customers would go elsewhere. This group believed in carefully shopping all the stores in the city and then marking merchandise at the prices charged by the others. (See case of Howard, Bell, & Ferman, page 344.)

Several buyers held the theory that all merchandise should be given a flat percentage of mark-up on cost, ordinarily 50%. Another policy which was advocated was that the mark-up should always be sufficient to cover all expenses and allow a reasonable profit. This plan seemingly would insure that no merchandise would be sold at a loss.

Another group asserted that custom usually dictated the price at which any merchandise could be sold. They cited, as an example, the case of men's collars, which for a number of years had been sold for 15 cents each or 2 for a quarter, pointing out that this custom had become so firmly established that even when the cost of manufacture had increased, and the collars could no longer be sold at this price at a profit, customers still expected the former price and were indignant when it was raised.

Several executives defended the view that merchandise should be priced at whatever the traffic would bear. They said that it was useless to mark up the price of an article to a figure that customers would not pay. Consequently, certain articles were sometimes carried at a loss. On the other hand, if a customer was willing to pay a high price for merchandise, permitting the store a rate of profit greater than normally received, it would be foolish not to take advantage of the situation. It also was suggested that all merchandise should be priced according to the cost of replacement. (See case of the Hadley-Winthrop Company, page 357.)

The controller pointed out that the highest price was not necessarily the most profitable. To support his statement he cited an example in the millinery department where a few high-grade hats had been given a high rate of mark-up. The turnover of this line of millinery, however, had been so slow that the profit derived from its sale had been comparatively small. He pointed out that most of the profit in dollars and cents shown by this department had been realized from the sale of a large number of medium-price hats at comparatively low rates of mark-up.

At what retail prices should the buyer for the waist and blouse department of Berkeley & Clarendon have marked the two lots of silk blouses?

4. MILLER, WHITMORE & COMPANY

DEPARTMENT STORE—PRICE POLICY FOR BARGAIN BASEMENT

Although the net profit realized by Miller, Whitmore & Company from the upstairs departments of its store for the spring season of 1923 showed a substantial increase as compared with the same season of the preceding year, the net profit from the bargain basement showed a decrease of 2.3% over the same period.

One of the possible causes for this reduced profit was the method of pricing merchandise sold in the basement. Because of lack of uniformity in the quality of merchandise purchased, the basement manager never had considered it desirable to use uniform percentages of mark-up. The mark-up placed on merchandise purchased for the basement was based on the estimated value of the merchandise to customers rather than on the cost of the goods to the store. This plan made it necessary for the buyers to rely on their own judgment in pricing each piece of merchandise.

The merchandise sold in the basement was purchased in job lots. Since each of these lots generally was bought for a lump sum, it often was difficult to allocate a definite cost to the separate items in a lot. Moreover, although the average billed cost per item might be $3, for example, some of the items could be sold for $10, while others would not bring more than $1.

In planning for a special sale in the basement, a buyer frequently purchased two or three times the quantity of merchandise that he expected to sell during the sale. For instance, for a special basement sale of men's suits in which 1,000 suits were to be offered for $17.98 each, 3,000 suits were purchased in order to secure an assortment from which 1,000 could be sold at the sale price and still permit a normal profit to be made on the purchase as a whole. Several buyers were sent into the market with instructions to purchase all job lots of men's suits which, in their estimation, were good bargains. At the end of a month,

3,000 suits had been purchased from 37 different sources. The average cost for each suit was $13.50; the total expenditure was $40,500. Without reference to the cost of each individual suit or each lot of suits, the buyers divided the suits into groups according to their estimated value to customers. Five hundred of the best suits were marked $27.98 each. The 500 next best suits were priced at $24.80, and the 400 next best suits at $19.35. A selection of 1,000 suits from the remaining 1,600 was then made to be offered at the special sale price of $17.98 each. The remaining 600 suits, which consisted principally of odd sizes, poor patterns, defective goods, or old styles, were marked at $9.95 each.

The general merchandise manager doubted the ability of the basement buyers to judge the prices that could be obtained for merchandise and advocated that the price of each item should bear a definite relation to its cost. He could see no necessity for taking losses before attempting to find out whether or not the merchandise could be sold at a normal mark-up. It was his opinion that a system of pricing goods similar to that used in the upstairs departments should be adopted for the basement.

In the upstairs departments an average rate of mark-up was set for each department, and buyers kept this rate in mind in making purchases. This plan made it possible to estimate in advance the net profits which the departments could secure for the season. Although mark-downs ordinarily were necessary at the end of a selling season, the original mark-up was made sufficiently high to allow leeway for these mark-downs, the approximate amount of which could be determined from past experience. In the general merchandise manager's opinion, under this system buyers exercised their judgment in selecting merchandise and hence could avoid large mark-downs; whereas under the system used in the basement they exercised judgment chiefly in determining the prices which could be secured for merchandise after it had been received, when it was too late to remedy errors in the selection of the goods.

Should the management of Miller, Whitmore & Company have made any change in the price policy of the bargain basement?

5. SHELDON COMPANY

GROCERY CHAIN—REDUCTION IN PRICE OF BREAD

The Sheldon Company operated a chain of 800 grocery stores in and near an Eastern city. It purchased the bread sold in its stores from three independent bakeries. The company was unable to secure quantity discounts from the bakeries and was forced to pay the same price as unit grocery stores. In the company's stores bread was sold mainly as a convenience to customers, and no sales efforts were expended to increase its sale. In 1923, in order to secure a greater profit from the sale of bread, the Sheldon Company established a bakery with a capacity sufficient to supply all its stores. Bread from this bakery was to be sold under a new private brand, registered by the Sheldon Company. A study of probable costs indicated that the usual 11-cent loaf could be retailed at 9 cents and the 8-cent size at 6 cents, but the company was uncertain whether to use these lower prices. The tentative costs on which the suggested prices were based were accepted as accurate.

It was possible to sell bread at the reduced prices because the company's cost of production was estimated to be lower than that of independent bakeries Modern equipment had been installed; and the bakery was operated as a department of the company's main office and warehouse, with consequent economies in fixed charges, such as those for administration and accounting. The cost of raw materials was low because purchases were made on a larger scale than those of most other bakers in the city.

As a staple commodity with a hitherto quite well defined price level, bread offered at a lower price was thought likely to attract additional purchasers. The executives of the Sheldon Company estimated the probable increase in bread sales to be one-third of the quantity currently sold. Because of this increase in sales, the company was willing to sell at one-half the percentage of profit on each loaf realized by independent bakeries.

Introduction of a new brand of bread, furthermore, would be facilitated by a lower price. The bread purchased from bakeries by the Sheldon Company had been sold under trade-marks developed by the bakeries and well known to the public. Purchasers were not thought likely to accept a new brand readily unless interested by a special price inducement.

The company was confident that its bread equaled in quality any other brand on the market, because it was made according to a formula used successfully in a bakery in another city in which some of the executives of the Sheldon Company were financially interested. Aggressive sales efforts, special displays in stores, and newspaper advertising could be used to develop demand for the bread on a quality basis. The executives were of the opinion that none of the competitors could in the immediate future, at least, sell bread so profitably as the Sheldon Company at the low prices contemplated.

Should the Sheldon Company have priced its new brand of bread at 9 and 6 cents a loaf?

6. REX KRAMER COMPANY

DRY GOODS CHAIN—PRICE POLICY FOR WOMEN'S HOSIERY

In the fall of 1927 the buyer for the hosiery departments of the Rex Kramer Company's chain of dry goods stores suggested to the general manager of the chain that a larger volume of sales and a higher dollars-and-cents profit might be secured if a lower mark-up were placed on women's hosiery.

The Rex Kramer Company operated a chain of dry goods and notions stores located in cities of from 10,000 to 100,000 inhabitants, all within a radius of 50 miles. Total annual sales amounted to slightly over $1,500,000, consisting principally of low-price yard goods, hosiery, underwear, sweaters, house dresses, millinery, neckwear, gloves, handkerchiefs, leather goods, toilet goods, ribbons, laces, smallwares, and jewelry. All the merchandise was bought by the central office, shipments usually being made directly from the manufacturers to the various stores.

The Rex Kramer stores sold women's silk hosiery at prices ranging from 69 cents to $1.65 a pair. The stores also carried small stocks of cotton hosiery retailing at 39 cents and 50 cents. The bulk of the hosiery sales were in three staple lines of full-fashioned silk hosiery which sold at $1.30, $1.45, and $1.65 a pair under the company's private brand, Kramex. The Kramer Company ordinarily did not stock new colors or patterns until they had proved their popularity.

Net sales of women's hosiery for all the Rex Kramer stores amounted to $95,962 during the seven months' spring period of 1926, and to $89,370 for the corresponding period of 1927. Initial mark-up for the 1926 period was 34% of retail, and for the 1927 period 33.6%. The gross margin was 31.9% of sales for 1926, and 30.8% for 1927. The lower gross margin for the 1927 period was attributable in part to the lower initial mark-up and in part to slightly greater mark-downs and larger stock shortages. Stock-turn for the seven months' period of 1926 was 1.8 times, and for the corresponding period in 1927, 1.7 times.

The hosiery buyer was confident that if he were permitted to reduce the initial mark-up on women's hosiery to 28% of retail he could increase his sales to $120,000 and secure a gross margin of 26%. He argued that competing stores, by selling women's hosiery at a lower mark-up, were drawing business away from the Rex Kramer Company. The expense ratio of the women's hosiery department was approximately 26% of net sales. The general manager of the company estimated that, if the sales in the hosiery departments increased 25%, the expense ratio could be reduced to 24.5% of net sales. If the lower mark-up policy were adopted, the buyer estimated that his stock-turn rate could be increased to two times for the seven months' season.

Should the Rex Kramer Company have adopted the lower mark-up policy proposed by the buyer for the women's hosiery department?

7. SONOMA COMPANY

OIL COMPANY—RETAIL PRICE POLICY

The Sonoma Company was a large oil company engaged in the production, refining, storing, and distributing of petroleum products. Annual sales amounted to about $50,000,000. The company owned nearly 500 retail service stations, and in addition sold gasoline and oil to independent retailers and wholesalers. Its gasoline was sold through about 10,000 pumps, including those at its own stations and those of independent dealers. The company sold its products in several states and advertised extensively in newspapers and magazines and on billboards. It also broadcast radio programs.

During the years immediately preceding 1930, the rapid increase in the production of petroleum resulting from the discovery of new oil fields had forced down the price of crude petroleum. In addition improved methods of refining had reduced the cost of manufacturing gasoline. As a result of these conditions prices in the industry were exceedingly unstable, there were frequent price wars, and dealers often gave customers secret rebates. In February, 1930, the Sonoma Company adopted a new price policy in an effort to help to stabilize prices in the industry.

Competition among oil companies to secure retail outlets was so severe that the companies had followed the policy of furnishing gasoline pumps and filling station equipment free of charge to any individuals who desired to become their distributors. Moreover, the companies also had undertaken to paint service stations, to grade driveways, and to lend air compressors, greasing racks, and other equipment. They lent this equipment not infrequently to stations whose sales volume did not justify the expenditure. The next step by oil companies to secure control of retail outlets had been the opening of chains of filling stations. These stations usually were situated in more desirable locations than those of independent stations. It had not been possible by 1930, however, for any company to control a sufficient number of outlets to distribute all the gasoline that it sold. The Sonoma Company estimated that about one out of twenty filling stations selling its gasoline was under its ownership. These owned stations, however, furnished between 15% and 20% of the company's total sales volume. In its own stations the Sonoma Company sold nothing but its own products. Its distributors, however, were allowed to sell any other merchandise that they chose.

In July, 1929, the leading oil companies in the United States adopted a code of practices for marketing refined petroleum products. This code, which had been interpreted and approved by the Federal Trade Commission, required, among other things, that all new installations of gasoline pumps and tanks should be made at the expense of the dealers, that no equipment should be lent without charge, and that the companies should no longer continue their policies of painting and otherwise improving retailers' property. The code stated, furthermore, that each pump should bear a sign stating the price at which gasoline was to be sold, and that all gasoline sold from that pump should be sold at the stated price. The actual price was not regulated; the

rule merely required that no secret rebates be given to customers, or any other arrangements made so that some customers would receive gasoline at lower prices than others. Although all the larger companies had adopted the code and were living up to it, a large proportion of the independent dealers, the Sonoma Company's executives believed, were not observing the agreement.

During 1929 the retail price of Sonoma gasoline throughout the territory served had been 18 cents a gallon, plus the state taxes, except in particular localities where there were price wars. This price was considered to be high enough to cover all costs and leave the company a fair profit. Most of the large companies with which the Sonoma Company was competing were selling gasoline at the same price and likewise were selling it at a flat rate. Where a price war in a local area was forcing the price of gasoline down, the Sonoma Company followed the policy of ascertaining the prices at which retailers were selling gasoline of competing companies and then reducing its price to its own dealers to a point where they could meet competition without sacrificing their own margin.

During the fall of 1929 the price of gasoline at the refinery had dropped considerably, until by the beginning of winter some of the Sonoma Company's competitors were selling gasoline at retail at 14 cents a gallon, plus the state taxes. While the companies selling at these lower prices were smaller companies, the independent retailers who were selling gasoline of both the Sonoma Company and of other large companies were cutting the established price by selling gasoline to their friends at 16 or 17 cents a gallon, plus tax. The Sonoma Company offered its dealers a margin of 4 cents a gallon. The officers believed, however, that few independent dealers actually were receiving more than an average of 3 cents a gallon, because of the prevalence of price cutting. The main cause of price cutting was thought to be the liberal policies of oil companies in aiding independent dealers to open new service stations, even at points where the prospective sales in no way justified their operation. In its own service stations the Sonoma Company maintained the advertised price, and most of its competitors followed the same practice in their own service stations. The effects of price cutting by independents, however, were such that the company experienced an appreciable loss in sales at its own stations.

Hence the Sonoma Company decided to adopt a new pricing policy in an attempt to protect and strengthen its own stations and fortify its own position in the industry. The new policy was simply a plan of basing retail prices directly on costs. The wholesale price of gasoline in tank car lots at the refinery was 10 cents a gallon, plus the state tax, which was collected from the refinery. The company estimated that a distributing margin of 2.5 cents a gallon was sufficient to defray the expense of delivering gasoline to filling stations in the immediate vicinity by motor tank wagon and to leave a reasonable distributing profit. The company's new price to independent dealers in this area, therefore, was 2.5 cents above the tank car price, which in the vicinity of the refinery would be 12.5 cents, plus tax, usually quoted as 14.5 cents less a discount of 2 cents. Furthermore the company decided to reduce the margin which it allowed its dealers from 4 cents to 3 cents a gallon since it believed a margin of 3 cents a gallon was sufficient for the operation of a service station, and thus placed the advertised retail price at 15.5 cents, plus tax.

This price was to apply to sales only in the vicinity of the refinery. Prices were to increase with the distance from the refinery, the increase to be based on freight rates from the refinery to each point computed to the nearest tenth of a cent. The company did not anticipate any difficulty as a result of competition between adjacent districts, since the difference in price would be small and would be based wholly on the cost of transporting the gasoline. The differential of 2.5 cents between the tank car price and the tank wagon price was to remain constant throughout the entire territory served by the company; and this also was true of the 5.5 cents difference between the tank car price and the retail price. The maximum price was to be 19.5 cents, plus tax, applying to a point about 600 miles from the base point.

In practically every district the new prices were below the former flat price for the whole territory, although in a few remote and inaccessible places the new prices were about the same as the old, or even a little higher.

Other large distributors of gasoline were expected to meet the new prices. The sources of the gasoline sold by other companies in the territory were such that if they adopted a similar plan of varying prices on the basis of costs of transportation the base point would have to be approximately the same as that used by the Sonoma Company.

8. TETFORD COMPANY

VARIETY CHAIN—PRICE POLICY

The Tetford Company operated a chain of variety stores selling merchandise at prices from 5 cents to $1, except for millinery, for which prices were as high as $2.98. The stores were located throughout the northeastern section of the United States, extending from Maine to Virginia and as far west as the Missouri River. The company sold merchandise at the same prices in all its stores except that the prices of enamel ware and some heavy merchandise were higher in the stores farthest from New York, where most of the manufacturers from whom the company purchased were located, to offset the increased costs of transportation to those stores.

The company operated no warehouses; instead merchandise was shipped directly from the manufacturers to the individual stores, and freight or express charges were entered on the invoices at the stores. All buying was done in the central office, and retail prices were established by the buyers in that office, although the store managers were allowed to vary these prices when they could satisfy the supervisors that the changes were desirable. Every month the store managers compiled and mailed to the central office records of the total original mark-up obtained on all merchandise received computed on the basis of the cost of merchandise, including freight or express charges.

In setting up the profit and loss statement, however, the central office considered freight and express as an operating expense. A store manager was paid a salary plus a percentage of the net profit earned by his store. The percentage figure varied according to the gross margin obtained by the store; that is, unless the store earned a gross margin of 30% of net sales, the manager received none of the net profit; if the gross margin was between 30% and 32% of net sales, he received 5% of the net profit; if the gross margin was between 32% and 33% of net sales, he received 7% of the net profit; and if the gross margin was over 33%, the manager received 10% of the net profit. If the total net profit averaged 10% or more of net sales, however, the manager received 15% of the profit instead of 10%. Consequently the executives had believed it unfair to consider freight and express as a cost of merchandise when computing the gross margin for profit and loss purposes, since a store manager was not responsible for his store's location.

The prices which the company had adopted were as follows. 5, 10, 15, 19, 20, 25, 29, 39, 50, 59, 69, 79, and 89 cents and $1 for all merchandise except millinery, for which the prices were $1.49, $1.69, $1.98, and $2.98. The prices 20 cents, 29 cents, and 59 cents were seldom used; the first was applied to only one line, hosiery; the second served as an intermediate price between the 25-cent and 39-cent lines to allow more nearly for the usual mark-up; and the third was used chiefly as a price for outsizes of items the regular sizes of which were priced at 50 cents.

The company had decided to use odd-figure prices partly to force the salespersons to make change and thus to insure their recording each sale on the cash register. The company used the even prices of 5, 10, 25, and 50 cents and $1, however, because it believed that here the factor of customer convenience was more important than the desirability of forcing the salespersons to make change or the bargain appeal of odd-figure prices.

Should the Tetford Company have continued to sell merchandise at the same prices in all stores?

Should any changes have been made in the treatment of transportation costs?

9. HADLEY-WINTHROP COMPANY

UNIT CLOTHING STORE—PRICING ON REPLACEMENT COST

Late in the fall season of 1922 the Hadley-Winthrop Company, which operated a men's clothing store, received 30 dozen pairs of men's black and navy blue silk hose which it had ordered to fill in sizes in the stock on hand. At that time the company had on hand approximately 250 dozen pairs of these hose, selling at $2.25 a pair. The 30 dozen pairs were billed to the company at $24 a dozen, an increase of $6 a dozen over the price paid for previous purchases of these hose. Although this advance of $6 in the wholesale price was in line with the general price tendency for similar merchandise, there was nothing to indicate the probable permanency or extent of the upward price movement. Inasmuch as the proportion of this order to the rest of the stock was

small, and since he judged the price advance to be temporary, the buyer marked the new shipment of hose to sell at $2.25 a pair.

Three days later the company received a shipment of 200 dozen pairs of men's rayon hose in a full run of sizes and colors. These hose were billed to the company at a price of $10 a dozen, as compared with a price of $8.50 a dozen on previous shipments. At the time this shipment was received, 25 dozen pairs of similar hose in broken runs of sizes and colors remained in stock. The company sold hosiery of this type at $1 a pair. Because of this popular price and the recognized quality of the merchandise, a substantial demand had been built up for the hose. Since the proportion of the new shipment was large, as compared with the stock on hand, the buyer marked the newly received merchandise to sell at $1.25 a pair and marked up the 25 dozen pairs in stock to the same price.

During the period of high prices in 1919, the Hadley-Winthrop Company had had large stocks of merchandise on hand which it had purchased at wholesale prices far lower than those prevailing in the open market. Although the company previously had followed a policy of pricing goods on replacement values, the difference in the latter part of 1919 between the prices paid earlier in the year for a substantial proportion of the stock and the prices then being quoted had been so great that the management had decided that it was unfair to the public to continue this policy.[1]

In 1920 a special assistant to the Attorney General in charge of the enforcement of the Lever Act had stated that under that act the Department of Justice would consider merchants who based their retail prices on replacement values liable to prosecution as profiteers.[2] Although prominent lawyers had stated that in all probability the higher courts would not support this interpretation of the Lever Act, the management of the Hadley-Winthrop Company had decided that, entirely aside from the legal phase of the situation, public welfare demanded that retailers in general should not take full advantage of rapidly rising replacement values on goods purchased at lower prices. Retail prices in this store, consequently, had been based strictly on original costs as long as the rising market continued.

[1] The question may be raised as to whether a policy of pricing on the basis of replacement cost does not conflict with the commonly accepted accounting principle of valuing inventories at cost or market whichever is lower.

[2] Eventually this part of the Lever Act (Section 4) was declared void for uncertainty.

Did the Hadley-Winthrop Company follow a sound policy in pricing the two shipments of hosiery?

10. CROMER COMPANY

DEPARTMENT STORE—MARK-DOWN POLICY[1]

In the spring of 1929 the merchandise manager of the misses' dress department in the Cromer Company questioned the soundness of the company's mark-down policy. He estimated that 85% of the total mark-downs in this department were taken because the merchandise was considered slow-selling; that is, it had been in stock more than two months.

Mark-downs in the misses' dress department during 1928 were 7.9% of sales. This figure included the reductions due to employee discounts and to the price adjustments made with customers. The merchandise manager was uncertain whether the company's policy of waiting until merchandise was two months old before taking mark-downs was sound. It might have been possible, he reasoned, to reduce the amount of mark-downs necessary to dispose of slow-selling merchandise by taking the mark-downs earlier and by taking larger initial mark-downs.

The Cromer Company, which was located in a large western city, had sales of approximately $35,000,000 in 1928. The company sold high- and high-medium-price merchandise. Style leadership was stressed continually; the company maintained an extensive organization at home and abroad devoted to the forecasting of fashion. The Cromer Company never purchased merchandise to sell at special prices in sales events, and had never held a store-wide clearance sale.

Prices in the misses' dress department ranged from $19.50 to $49.50. Sales in 1927 and 1928 were $585,000 and $865,000 respectively. Maintained mark-up in 1928 was 32.6% of sales, and expenses amounted to 24.5%. Inclusive of cash discounts, the net profit for the misses' dress department was approximately 13.4% of sales. Average stock in the department amounted to $62,000 during 1928.

Customers apparently were not eager to purchase marked-down merchandise unless considerable reductions had been made.

[1] See case of the Galeworth Company, 5 H.B.R., 343.

Merchandise that had been reduced was advertised as "greatly reduced" or as a clearance. Comparative prices were not used in the advertising of reduced merchandise, although the price ticket on such an article carried the former price as well as the reduced price. Most of the regular-price merchandise in the misses' dress department was kept in the department's stock rooms, which were adjacent to the department. Marked-down merchandise was displayed on racks in the department.

Physical inventories were taken of stock in the misses' dress department weekly by price, season letter, and classification. The season letter consisted of a letter indicating the season and of a number designating the month in which the merchandise was received. There were 12 merchandise classifications in the misses' dress department. Listings were made in pieces by price and season letter and by price and classification. A season weekly summary also was maintained showing by weeks for a season the number of pieces on hand according to season letters. The merchandise manager and buyer studied these three records each week and decided what merchandise should be reduced in price and the amounts of the reductions. Reductions usually were made to the next lower regular price lines.

On November 6, 1928, the merchandise manager noted that three lots of merchandise were slow-selling. These lots were as shown in Exhibit 1.

EXHIBIT 1

CROMER COMPANY

Slow-selling Report—Misses' Dresses

Date Received	Quantity Received	Cost	Original Price	Previous Mark-downs			Quantity on Hand 11/6	Suggested Mark-down Price
				Price	Date	Quantity		
8/13	18	$22.50	$35.00	.....	.....	..	8	$29.50
9/4	32	16.50	29.50	.....	.....	..	14	25.00
7/24	20	29.50	49.50	$39.50	10/12	12	6	29.50

The buyer believed that the designs of the dresses in these lots had not been copied in lower-price dresses. The dresses were not soiled or damaged in any way, and the buyer did not think that the colors and sizes were at fault. She stated that she wished to dispose of this merchandise because she was convinced that customers had become accustomed to seeing these dresses and would not purchase them unless the prices were substantially reduced.

11. PATTON BROTHERS

DEPARTMENTIZED SPECIALTY STORE—TAKING MARK-UPS AFTER A SALE

For a special sale the buyer for the millinery department of Patton Brothers, a departmentized specialty store, had reduced the prices of a number of hats. At the close of the sale, he wished to replace the original price tickets on the unsold hats. The number of hats remaining at each price was as follows:

Number	Cost	Original Retail Price	Special Sale Price
18	$ 6.25	$10.50	$ 7.25
3	8.00	15.00	10.75
26	5.75	8.50	5.50
5	14.00	25.00	18.50
12	8.50	12.75	10.00

None of these hats had been marked down prior to this sale. The hats costing $6.25 and those costing $5.75 had not found a ready market at the original selling prices, and hence would have been marked down in any event. Sales of the other hats at the original retail prices, however, had been satisfactory.

In accordance with the general policy of the merchandise management, the store's buyers ordinarily planned not to offer more items in a special sale than they were reasonably certain would be sold. This result, however, could not be achieved always; and in the case of merchandise left over from sales, as in this instance, there was no uniformity of opinion among buyers as to whether prices should be marked up to the former retail figures or allowed to remain at the reduced level.

In the case of the hats, the buyer contended that to permit the special sale prices to remain unchanged would result in an unnecessary loss for his department. Although he was willing to allow the reduced prices to remain on the two groups of hats which had not sold well previously, he did not think that the

hats in the other three groups should be offered at the special sale prices, since they were still in demand and probably would have to be reordered.

Should the hats remaining in stock after the special sales event have been marked at their original retail prices?

12. CANSON & OLNEY

DEPARTMENT STORE—REDUCTION IN NUMBER OF PRICE LINES[1]

The women's shoe department of Canson & Olney was located in a rear corner on the street floor of the store, adjacent to the women's hosiery department. During the early part of 1923 the department was selling shoes at 16 prices, ranging from $6 to $15 a pair. The 16 price lines of the department in the early part of 1923 were: $6, $6.50, $7, $7.50, $8, $8.50, $9, $9.50, $9.75, $10, $10.50, $11, $11.50, $12, $13, and $15. Shoes were purchased specifically to sell at one of these prices. The best selling price line was that at $10.

Forty per cent of the merchandise in stock in the women's shoe department was in comparatively staple lines, such as black or tan strap shoes, oxford ties with low heels, and opera pumps. The rest of the stock was in rapidly depreciating style lines, such as shoes with novelty cut-outs, combination colors, fancy colors, and novelty leathers. The inventory of women's shoes at the end of 1922 was $184,000 at cost.

The department sold women's shoes in widths AAAAA to E and EE, in sizes ranging from 2½ to 9. No shoes were sold in the entire range of sizes and widths. For instance, AAA widths were not stocked in sizes smaller than 4, and AA widths were not stocked in sizes smaller than 3½. The usual widths in which practically all shoes in the department were carried were AAA to C.

Generally the buyer planned to have in stock or on order at least 120 pairs of shoes for each style number in order to carry a sufficient range of widths and sizes in that number. After a few days' sales, however, if a style proved popular, several of the sizes were almost certain to be out of stock. If the salespeople

[1] See cases of Tasker Brill Company, 3 H.B.R., 220; and the Whiteside Company, 3 H.B.R., 217.

knew that there was a similar shoe in stock in a full line for a slightly different price, they attempted to sell this second style in place of the first. They preferred to sell shoes from the newly purchased lines with a full range of sizes for two reasons: first, they wished to please their customers by giving them the newest merchandise the store had; second, they could fit customers more easily with shoes from a full line, because the range of sizes was complete. As a result of this practice, the stock of the department gradually had accumulated in broken lines.

The department held two regular clearance sales, one at the end of each fall and spring season, in January and July. It also held special mark-down sales at intervals of approximately two months. All the merchandise included in these sales was marked down to one low price. The purpose of the periodic mark-down sales was to close out style numbers which were not popular; the clearance sales also were held for this purpose, as well as to balance the distribution of the inventory for the beginning of the next season. In 1922, mark-downs were 5.5% of net sales.

In the summer of 1923 the merchandise manager decided to reduce the number of price lines in the department to seven: $7, $8, $10, $11, $12, $15, and $18. He did not plan to carry all styles at each price, but he did plan to keep an adequate range of sizes in practically all the styles carried at these prices. He believed it was necessary to maintain a wide range of prices in the department because of competition with other stores in varying price classes; but he reduced the number of intermediate prices, discontinued entirely the two lowest prices, and raised the highest price to $18.

13. REAVIS COMPANY

DEPARTMENT STORE—REDUCTION IN NUMBER OF FULL-LINE PRICES

In 1923 an analysis of the merchandise records in the women's silk hosiery department of the Reavis Company's store showed that for the previous five selling seasons the average stock at retail in that department had been from 28% to 47% of the total annual net sales of the department. As a means of reducing the

stock carried in the department, the buyer and the divisional merchandise manager contemplated a reduction in the number of prices at which the department sold full lines of hosiery.

The company's total annual net sales were about $14,000,000; approximately 57% of the sales were made for cash, 39% on charge accounts, and 4% for collection on delivery. The store catered especially to customers who purchased popular-price merchandise.

The women's silk hosiery department extended along the entire length of one side of the street floor. This department carried hosiery in a wide range of colors and shades; an effort was made to maintain complete stocks of sizes in the most popular colors and shades.

In 1921 and again in 1922 the total net sales of this department had been about $326,000. The average original mark-up on purchases had been 30.8% of retail prices in 1921 and 29.4% in 1922. The retail reductions had been 9.1% and 7.8% of net sales in those years, respectively. The total expenses of the department had been 24.3% of net sales in 1921 and 23.7% of net sales in 1922. The stock-turn had been 2.9 times in 1921 and 3.4 times in 1922.

At the beginning of 1923 the principal lines of hosiery carried by the women's silk hosiery department, together with their selling prices, were as follows:

Mock-seam pure-dye silk and rayon hosiery	$0.90, $1.15, $1.35, $1.50, $1.80
Full-fashioned pure-dye lisle-top silk hosiery	$1.35, $1.50, $1.60, $1.70, $1.80, $2.00, $2.50, $2.75
Full-fashioned ingrain lisle-top silk hosiery	$1.75, $2.25, $2.40, $2.50
Full-fashioned ingrain all-silk hosiery	$2.25, $2.75, $3.00, $3.15, $3.40, $3.60, $3.80, $4.00, $4.30, $4.50, $4.70, $5.00, $5.15, $5.50

It was the opinion of the buyer for the women's silk hosiery department that the large number of hosiery prices had resulted from readjustments in the period from 1919 to 1923, when prices were changing rapidly. To remedy this situation, the divisional merchandise manager and the buyer for the women's silk hosiery department decided to establish a limited range of prices for each class of silk hosiery. Both men were familiar with the model stock plan for department stores which was advocated by the president of a large eastern specialty store.[1] One of the features of this plan was that, in order to keep at a minimum the investment in merchandise on hand and, at the same time, to have full stocks of merchandise in a desirable price range, stocks in a complete range of sizes and colors should be carried at three prices. According to the model stock plan, these price lines were called the cheapest full line, the best selling full line, and the highest-price full line. Some stock could be carried at intermediate prices and some at lower or higher prices; but, under the model stock plan, complete lines of merchandise were not to be carried at these other prices.

In the mock-seam pure-dye silk and rayon line of hosiery the buyer and the merchandise manager selected two styles, one of which, a rayon product, was to retail at 90 cents and the other, a silk product, at $1.35. From this line an outsize also was selected with a ribbed top which could be stretched readily to give the necessary additional diameter at the top of the stocking. This type of stocking was to be of the same material and quality as the $1.35 hosiery but was to retail for $1.65 a pair. In the full-fashioned, pure-dye silk hosiery line, the divisional merchandise manager and the buyer at first decided to concentrate on two numbers, to be sold at $1.75 and $2. The $1.75 hosiery was to be a 10-strand stocking, in which each thread was made up of 10 strands of silk; and the $2 hosiery was to have 12 strands. Changes in the silk market and a demand for lower-price silk hosiery later caused the Reavis Company to enlarge its full-fashioned pure-dye silk hosiery line by the addition of one other style, an 11-strand special feature stocking to be sold at $1.50. For the same line, two outsizes, which were essentially duplicates of the hosiery sold at $1.75 and $2, were provided to sell at $2 and $2.50. From the full-fashioned ingrain lisle-top line, a single number was selected, to be sold at $1.75. From an analysis of the stock, the buyer found that more capital was invested in the ingrain silk hosiery than in any other type, and that the ingrain hosiery was not particularly popular among the store's customers. It was decided, therefore, to retain only one complete line of full-fashioned ingrain all-silk hosiery, to be sold at $2.75; this hosiery also was to be carried in an outsize at $3.15 a pair.

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[1] Filene, E. A., *More Profits from Merchandising*, Chicago, A. W. Shaw Company, 1925, pages 18–36.

Some novelty feature stockings and one or two other styles were carried, but they were comparatively unimportant and were not stocked in full assortments of sizes and colors.

After these changes, the department was selling full lines of hosiery at the following prices:

Mock-seam pure-dye silk and rayon hosiery	$0.90, $1.35, $1.65 (outsize)
Full-fashioned pure-dye lisle-top silk hosiery	$1.50, $1.75, $2.00, $2.00 (outsize), $2.50 (outsize)
Full-fashioned ingrain lisle-top silk hosiery	$1.75
Full-fashioned ingrain all-silk hosiery	$2.75, $3.15 (outsize)

These changes were put into effect during 1923. Total net sales of the department for the year were $334,800. The average original mark-up on purchases was 30% of retail prices, retail reductions 9.1% of net sales, and total expense 22.9% of net sales. The rate of stock-turn was 3.7 times for the year.

The buyer analyzed the sales and stocks of the department at the end of 1923 and found that, following the reduction in the number of full-line prices, sales had been divided as follows:

Price	Description	Percentage of Total Volume
$0.90	Mock-seam pure-dye rayon hosiery	10.9%
1.35	Mock-seam pure-dye silk hosiery	24.6
1.50	Full-fashioned pure-dye special-feature lisle-top silk hosiery	13.1
1.75	Full-fashioned pure-dye lisle-top silk hosiery	41.2
	All other prices	10.2
	Total	100.0%

The model stock plan previously cited provided that, when a mark-down was taken, the merchandise should be priced at the next lowest full-line price. It was the opinion of the buyer of the Reavis Company's silk hosiery department that if merchandise were marked to the next lower full-line price, the loss generally would be proportionately greater than the increase in selling appeal. Price reductions in the silk hosiery department of the Reavis Company's store usually were effected by offering several pairs of stockings at a reduced combination price, such as three pairs of $1.50 stockings for $3.60.

Whenever a reduction of stock was necessary in a department, it was the general policy of the Reavis Company to carry a complete assortment of sizes and colors in the styles which were kept on hand, and to make any necessary stock reductions by dropping entirely the least wanted lines. The alternative to this plan was to carry all the lines but not to purchase the colors or sizes for which the demand was comparatively small.

In formulating plans for the women's silk hosiery department of the Reavis Company in 1924, should the divisional merchandise manager and the buyer have reduced further the number of prices at which full lines of hosiery were sold?

14. TAYPORT COMPANY (B)

MANUFACTURER'S RETAIL SHOE CHAIN—SINGLE-PRICE POLICY[1]

In February, 1928, the Tayport Company was manufacturing men's and women's shoes for sale through its own retail stores at the single uniform price of $6.80 a pair. This price policy had been adopted in 1922 when the company had established a centralized stock control system. Prior to 1922 the company had distributed half its output through 60 retail branches which it operated in the larger cities of the United States. The other half it had distributed through 1,100 independent retail stores holding exclusive agencies for Tayport shoes.

As a result of orders for special styles from the exclusive agents and the retail branches, the Tayport Company in 1920 had been manufacturing 2,500 styles of men's and women's shoes selling at 22 retail prices varying from $7.50 to $18 a pair, the average price being $11.50 a pair. The company's annual net sales at that time had been approximately $5,000,000. The sales of men's shoes had constituted 70% of the total, and the sales of women's shoes had made up the remainder. The average stock-turn for the company's branches had been 1.5 times a year.

In 1921 the company had reduced the prices of its shoes so that the average price was about $8.50 a pair. No increase in sales had resulted, however, and it had become evident that only through a further reduction in price without a corresponding reduc-

[1] See case of the Ivar Shoe Company, 5 H.B.R., 347.

tion in quality could sales be increased. In order to effect this reduction in price the company had sought to reduce the costs of manufacture and distribution. It had accomplished this by decreasing the number of styles from 2,500 to approximately 100 and by adopting a single-price policy. The costs of the various styles were not uniform, but it had been found that a satisfactory average gross margin could be realized from the single retail price of $6.80 a pair.

Exclusive agents had refused to sell Tayport shoes under the changed policy, and thereafter the company had relied entirely on its own branches for retail distribution.

Shoes were billed to all the company's stores at the retail price of $6.80, and store managers were not allowed to take any mark-downs. Obsolete merchandise was returned to the factory and there sold in job lots to companies which specialized in the puchase and sale of such goods.

As a result apparently of its stock control system and its merchandising policy, the company had succeeded in two years in reducing its average inventory of shoes 25%. During this period the unit sales of the company's retail stores had been doubled, the company's net profits had increased, and its current ratio had increased from 1.79 to 1 to 5 to 1.

The Tayport Company regularly advertised to consumers in newspapers, magazines, and other media. In its advertising the company placed particular emphasis on the quality of its shoes and on its single uniform price of $6.80.

During 1927 leather prices had advanced greatly; and by February, 1928, it had become apparent to the management of the Tayport Company that any further substantial increase in leather prices during 1928 would make it difficult for the company to manufacture shoes of the same quality as in the past and still maintain the retail price at $6.80.[1]

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[1] The Harvard Economic Society in its letter of January 28, 1928, described the leather situation as follows:

"The advance in hide and leather prices was one of the most noteworthy developments of the year [1927]. Packer heavy native steer hides rose from 14 cents per pound in March to 25 cents in December, an increase of 79%."

Mr. Fraser M. Moffat, President of the Tanners' Council of America, speaking before the National Boot and Shoe Manufacturers' Association in New York City on January 17, 1928, made the following statement:

"These new levels of prices, in some cases 100% above those of a year ago, have created a situation which leads us to think of a man who finds himself in a strait-jacket, and I refer to a type of your product known as the fixed price shoe."

In the event of rising leather prices, should the Tayport Company have planned (*a*) to offer shoes of lower quality at the $6.80 price, (*b*) to raise the price of its shoes, at the same time maintaining a single-price policy, or (*c*) to abandon the single-price policy?

15. URMSTON COMPANY

GROCERY CHAIN 5- AND 10-CENT PRICES[1]

In the summer of 1929 the Urmston Company, which operated a chain of 5- and 10-cent grocery stores, considered whether to expand its line of merchandise to include groceries at prices over 10 cents. The stores operated by the Urmston Company were all located in suburban areas surrounding a large middle-western city. The company had begun operations 3 years previously with 2 stores, and since that time had added 15 more.

The company had been founded in the belief that the large number of small families living in small apartments in the city made such stores desirable. The founder of the company had conceived the idea of a 5- and 10-cent grocery chain while he was president of a large retail grocery company. Before selling his interest in this company he had made the experiment of setting aside a counter in his store for the sale of groceries at 5 and 10 cents. The success of this experiment had encouraged him to organize the Urmston Company for the sale of groceries at these prices only.

The Urmston Company's stores were operated on a self-service basis. When a customer entered a store, she took a basket from a large bin and passed through a turnstile into an area lined with open shelves on which the merchandise was readily accessible. Here she could remain as long as she liked, looking at the merchandise and comparing various products. The prices of all items were plainly marked. After a customer had chosen the items that she wished, she carried them to the cashier's counter, where the total price was computed and the items were wrapped, and where the customer paid for them. No delivery service was offered by the stores.

At the outset about 750 items were stocked, of which nearly 100 were sold at 5 cents and the remainder at 10 cents. The

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[1] See case of the Dover Stores Company, page 305.

company stocked all the nationally advertised brands which were packaged to sell at 5 and 10 cents, and in addition had succeeded in inducing a number of manufacturers to produce special packages to sell at these prices. Bulk items such as flour and rice were packaged by the company itself. In addition, such items as butter, eggs, cheese, bacon, bread, fresh fruit, and vegetables were sold. Butter was packaged in pats weighing one-sixth of a pound, selling at 10 cents. Eggs were sold at 5 cents apiece and at 3 for 10 cents, depending on the grade. The company's experience with eggs illustrated one of the difficulties encountered. In the fall of the year, when eggs were high, it was practically impossible to sell eggs of good quality at these prices, unless they were sold at a loss. In general, however, the company had been fortunate in that it had passed through no period of serious price fluctuation which might have caused a similar difficulty in the case of other staple merchandise.

The company had experienced difficulty in attempting to offer a complete line of merchandise. Many manufacturers were unwilling to produce packages small enough to sell for 10 cents. Others already were offering packages to retail at 7 or 8 cents and would not change this policy or produce additional packages to sell at 5 or 10 cents. Furthermore, the company was forced to sell at 5 cents a number of items that regularly retailed at 5½ cents or 6 cents, and similarly to sell at 10 cents items that regularly retailed at 11 or 12 cents. On the other hand, the company could not readily sell items at 5 cents or 10 cents which its competitors were selling at 4 for 15 cents, 9 cents apiece, or 3 for 25 cents.

There were many lines of breakfast foods which the company was unwilling to carry, since most cereal manufacturers produced packages to retail at 11 or 12 cents or more. A few lines which were regularly retailed at 10 cents were carried by the company, but competing chain stores ran frequent special sales of these items at 9 cents apiece or 3 for 25 cents.[1] The company had attempted to carry some small packages of breakfast foods which were sold at 5 cents, but the public had not favored this size of package. The Urmston Company had had a similar experience with sales of coffee. It had offered a small package of instantaneous coffee, which was sufficient for 4 cups, at a price of 10 cents, but this package had never been popular.

[1] See case of the Hanover Company, page 184.

In some other lines the Urmston Company had found that to secure the merchandise packed in containers of 5- or 10-cent size it was necessary to place large orders. For instance, the company had had to order 5,000 cases of canned salmon to obtain the quality which it desired in a can which it could sell for 10 cents. The cannery, in turn, had been forced to install special machinery before it could fill this order.

By the summer of 1929 the company was selling about 1,100 items. It was still unable, however, to offer to its customers a complete line of groceries. In addition its sales policy was handicapped by its fixed prices, whereas competing chain grocery stores varied their prices from day to day. Its sales of merchandise apparently were not made to an established clientele. Although the stores drew a satisfactory number of customers, the average sale per customer amounted to only 30 cents. As a result of its relatively small sales volume, the company had been unable to earn a profit. The president believed that the stores would be successful if the average sale could be increased to 40 or 50 cents. The sales volume for 1928 had been about $800,000 in the 17 stores, whereas the warehouse and office facilities were large enough, the president believed, to handle a volume twice as great.

Merchandise was charged to the stores at both cost and retail. Each store manager made out a daily report which he sent to the central office. A perpetual book inventory was maintained, and one man was continually employed in taking physical inventory. He was able to take the inventory of each store once a month. One of the most serious problems which the company faced was the high rate of shortage, which amounted to approximately 4% of sales. The management had been unable to locate the cause of this shortage. Merchandise was sent to the stores bearing a mark-up of about 21% on retail price. The gross margin obtained, however, was only 17%. Expenses were about 19% of sales, and the president pointed out that if the shortage could be reduced to the average in other chain stores, which he believed to be about 1.5% or 2%, the company would be able to cover its expenses.

Should the the company have changed its price policy?

16. HAMPTON COMPANY

DEPARTMENT STORE—PRICE LINING

In January, 1929, a new buyer was appointed in the boys' clothing department of the Hampton Company, a department store. One of the first steps he took was that of consolidating the

EXHIBIT 1

HAMPTON COMPANY

Boys' Clothing Department—Physical Inventory, January 31, 1929,

	Boys' Suits, Regular	Boys' Suits, Stout	Overcoats	Topcoats	Leather Coats	Slickers	Wool Knickers, Regular	Wool Knickers, Stout	Corduroy Knickers	Summer Knickers
$ 1.00	....	..	..	..	..	..	....	..	..	13
1.25	....	..	..	..	..	..	....	..	..	64
1.35	....	..	..	..	..	..	....	..	..	89
1.50	....	..	..	..	..	..	19	..	..	8
1.65	....	..	..	..	..	..	....	..	49	....
1.75	....	..	..	..	..	..	....	..	..	217
2.00	....	..	..	..	..	41	....	..	13	4
2.25	....	..	..	..	..	..	5	..	..	....
2.50	....	..	..	..	..	..	179	..	..	8
2.75	....	..	..	..	..	..	2	..	..	154
3.00	....	..	..	..	..	..	68	..	1	3
3.50	1	..	..	..	..	..	137	45	5	4
3.95	....	..	..	4	..	..	15	..	..	....
4.00	....	..	..	..	..	..	....	2	..	....
4.50	....	..	..	1	..	..	....	..	..	....
5.00	22	..	..	4	..	27	8	..	..	....
5.50	....	..	..	..	1	..	7	..	1	....
5.75	....	..	..	..	..	..	1	..	..	....
6.00	....	..	..	..	..	..	2	1	..	....
6.50	....	..	..	..	..	1	....	..	..	....
7.00	....	..	..	..	..	..	1	..	..	....
7.45	1	..	..	..	..	..	....	..	..	....
7.50	....	..	..	2	..	..	....	..	..	....
8.20	1	..	..	..	..	..	....	..	..	....
8.45	....	..	..	..	1	..	....	..	..	....
8.75	....	15	..	1	..	..	....	..	..	....
9.50	....	..	..	2	..	..	....	..	..	....
10.00	1	..	..	..	..	..	....	..	..	....
10.45	....	..	..	..	3	..	....	..	..	....
10.50	....	..	..	17	..	..	....	..	..	....
10.75	....	..	..	1	..	..	....	..	..	....
10.95	....	13	..	..	..	..	....	..	..	....
11.75	....	..	..	..	18	..	....	..	..	....
12.45	....	1	..	..	..	..	....	..	..	....
12.50	98	..	..	..	..	..	....	..	..	....
12.75	43	..	..	7	9	..	....	..	..	....
13.75	19	..	..	..	..	..	....	..	..	....
13.95	....	..	..	..	1	..	....	..	..	....
14.50	17	5	..	1	..	..	....	..	..	....
14.75	216	11	..	..	1	..	....	..	..	....
15.45	30	25	..	..	..	..	....	..	..	....
15.75	....	..	..	19	..	..	....	..	..	....
17.50	222	19	..	..	..	..	....	..	..	....
18.50	2	..	..	..	..	..	....	..	..	....
19.75	142	14	..	5	5	..	....	..	..	....
20.00	33	17	1	..	..	..	....	..	..	....
22.50	13	9	..	..	1	..	....	..	..	....
24.50	....	1	..	..	..	..	....	..	..	....
25.00	165	4	..	1	..	..	....	..	..	....
29.50	57	3	..	..	..	..	....	..	..	....

numerous existing prices in the boys' clothing department into price lines for each type of merchandise. Exhibit 1 shows the inventory classified by prices and types as of January 31, 1929.

The boys' clothing department sold clothing for boys and youths between the ages of 7 years and 20 years, including suits, overcoats, topcoats, leather coats, slickers, wool knickers, corduroy knickers, and summer knickers. Sales in 1928 had been approximately $150,000, and the rate of stock-turn about 2.8 times. The desired rate of stock-turn for the department was 5 times yearly. In 1928, the department had secured an initial mark-up on retail of between 36% and 37%, and mark-downs had been about 5% of sales.

With the exception of suits the buyer had no sales records by which he could be guided in establishing price lines. The price lines which he proposed to use were based, therefore, on other factors, including existing prices in the Hampton Company, competitors' prices for similar merchandise, cost of merchandise and initial mark-up required, the prices which 12 other stores in the same buying association with the Hampton Company were using, and the opinion of salespeople in the department. After considering all the factors and, in the case of knicker suits, the sales for the period from February, 1928, to September, 1928, as shown in Exhibit 2, the buyer proposed to establish the price lines shown in Exhibit 3.

In boys' regular size knicker suits the buyer proposed to establish three price lines, namely, $10.75, $17.50, and $25, at which prices complete assortments would be carried. The sizes carried would range from 7 to 20, a total of 11 sizes. In each size at least three style numbers would be carried. The buyer planned to use $10.75 as the lowest regular price line; suits sold at this price would be purchased through the association of stores of which the Hampton Company was a member. The buyer estimated that the number of suits carried at this price would be between 100 and 125. The second price line, $17.50, had been used in the boys' clothing department for several years; and the buyer believed that the customers expected to be able to purchase suits at this level. Approximately 125 suits would be carried at this price. The third price, $25, was designed mainly to take care of the demand for higher-grade suits and also to enable the company to trade up in its boys' clothing department. The buyer expected to carry about 100 suits at $25.

EXHIBIT 2

HAMPTON COMPANY

Sales, in Units, of Boys' Knicker Suits of All Types from February, 1928, to August, 1928, and Sales, in Units, of Fancy Knicker Suits and Blue Suits, September, 1928

Price	February Units*	March	April	May	June	July	August	September Blue	September Fancy
$ 5.00	m 51	m 3	m 1	....	....	m 2	.....	....	....
7.50	m 59	m 6	m 1	m 3	....	m 1	.....	....	....
8.20	....	....	....	....	....	m 8	m 23	....	r 3
8.50	s 67	s 46	....	....	....	m 7	.....	....	....
8.75	....	....	....	m 15	....	....	s 116	....	r 2
9.45	m 17	....	....	....	....	....	.....	....	....
9.75	s 20	m 1	r 43	r 2	r 1	....	.....	....	....
9.95	....	s 47	r 59	r 5	....	....	.....	....	....
10.75	m 27	m 3	....	....	....	....	.....	r 1	r 1
10.95	m 1	r 4	r 18	r 18	r 2	r 1	r 4	r 3	r 45
11.05	....	....	....	....	....	....	.....	....	r 10
12.25	....	....	....	....	s 13	m 1	.....	....	....
12.50	....	....	....	....	....	....	s 22	....	s 46
12.75	r 7	m 29	m 41	s 69	r 7	r 4	r 4	....	r 2
12.95	....	s 99	s 18	....	....	m 3	m 1	....	....
13.25	....	....	....	....	....	....	m 1	....	....
13.75	....	....	....	....	....	....	r 8	r 38	r 54
14.50	r 20	r 104	r 118	r 11	r 8	....	r 3	r 1	r 4
14.75	....	....	....	....	....	....	.....	....	r 27
14.95	....	....	....	....	....	....	.....	....	r 1
15.45	r 46	r 33	r 4	r 49	r 49	r 3	r 5	r 29	r 2
15.75	r 38	r 106	r 60	r 95	r 41	r 3	r 11	r 6	r 2
16.50	m 27	m 7	m 4	m 7	m 3	....	m 2	m 4	m 2
17.50	r 22	r 71	r 49	r 25	r 15	r 1	r 8	....	r 38
19.75	r 14	r 55	r 22	r 10	r 4	....	r 5	r 1	r 35
20.00	....	....	....	....	....	....	.....	....	r 3
20.50	....	....	....	....	....	....	m 1	....	....
22.50	r 9	r 3	r 3	....	r 4	....	r 1	r 3	r 1
24.50	r 6	r 10	r 2	r 2	....	....	.....	....	....
25.00	r 3	r 28	r 11	r 5	r 8	r 1	r 2	r 4	r 27
27.50	....	r 4	r 1	....	r 1	....	.....	....	....
29.50	....	r 10	r 1	r 14	r 4	....	r 1	r 5	r 5

* Sales at mark-down prices indicated as (m), at special prices as (s), and at regular prices as (r).

At the other price lines for regular size knicker suits, less complete assortments would be carried. For instance, one style number might be purchased in sizes from 7 to 12 only, and another style number in sizes 10 to 16. A few additional suits in one or two styles would be carried in the larger sizes, namely, sizes 18, 19, and 20, in order to meet the occasional demand that could not be satisfied by suits in the complete assortment price lines. The buyer estimated that a total of approximately 40 to 60 suits would

EXHIBIT 3

HAMPTON COMPANY

Existing Prices, Prices Used by Associated Stores, and Proposed Price Lines for Boys' Clothing Department

Existing Prices	Prices Used by Associated Stores	Proposed Price Lines
Knicker Suits, Regular		
$ 3.50		
5.00		
7.45		
8.20		
10.00	$10.75	$10.75
12.50		
12.75		
13.75	13.75	
14.50		
14.75		14.75
15.45	16.75	
17.50		17.50
18.50		
19.75		
20.00	20.00	20.00
22.50		
25.00	25.00	25.00
29.50		29.50
Knicker Suits, Stout		
$ 8.75		
10.95		
12.45		
14.50		
14.75		
15.45		
17.50	$16.75	$16.75
19.75		
20.00	20.00	20.00
22.50		
24.50		
25.00	25.00	25.00
29.50		
Blue Suits		
		$12.75
(Included with Knicker Suits)	(Not Known)	15.45
		17.50
		19.75
		25.00
Overcoats		
		$11.75
	$14.75	14.75
$20.00	20.00	20.00
	25.00	25.00
	30.00	30.00
Topcoats		
$ 3.95		
4.50		
5.00		
7.50		
8.75		
9.50		
10.50		$10.00
10.75		
12.75		
14.50	$14.75	15.00
15.75		
19.75	20.00	20.00
25.00	25.00	25.00

Existing Prices	Prices Used by Associated Stores	Proposed Price Lines
Leather Coats		
$ 5.50		
8.45		
10.45		
11.75		
12.75		
13.95	(Not Known)	$13.95
14.75		
19.75		
		20.00
22.50		
		25.00
		30.00
Slickers		
$ 2.00		
5.00	(Not Known)	$ 4.50
		5.00
6.50		
Wool Knickers, Regular		
$ 1.50		
2.25	$ 1.95	$ 2.00
2.50		
2.75		
3.00	2.95	2.95
3.50		
3.95	3.95	3.95
5.00		5.00
5.50		
5.75		
6.00		
7.00		7.50
Wool Knickers, Stout		
$ 3.50	$ 1.95	$ 2.00
4.00	2.95	2.95
6.00	3.95	3.95
		5.00
		7.50
Corduroy Knickers		
$ 1.65		
2.00		
3.00	(Not Known)	$ 2.50
3.50		
5.50		3.50
Summer Knickers		
$ 1.00		$ 1.15
1.25		
1.35		1.35
1.50		
1.75	(Not Known)	1.65
2.00		2.00
2.50		
2.75		
3.00		
3.50		

be carried at all times at the price lines $14.75, $20, and $29.50. The $14.75 price was chosen because the buyer believed that some customers regarded $15 as the highest price they wished to pay for boys' suits. Such persons, he thought, believed that an odd price, such as $14.75, represented an attempt on the part of the company to price goods as low as possible. The $20 price, on the other hand, was chosen instead of $19.75 because the buyer believed that customers who were willing to pay about $20 for a suit were not influenced greatly by a difference of 25 cents. Two of the Hampton Company's competitors sold boys' suits at $19.75, while two others sold suits at $20. The $29.50 price was designed primarily to take care of the demand for larger size suits. This price had been used in the department for several years. In establishing price lines for boys' suits, the buyer was not influenced greatly by the cost prices. His experience had been that suits could be purchased from manufacturers at almost any price the retailer wished to pay. Within limits, differences in the cost of suits were due primarily to differences in workmanship and tailoring.

The lowest price line proposed for boys' suits in stout sizes was $16.75. The buying association of which the Hampton Company was a member was purchasing suits in stout sizes at $11, and in all the stores these suits were being sold at $16.75. The buyer also selected $20 and $25 as price lines for boys' suits in stout sizes. About 50 suits would be carried at each of these price lines.

The price lines proposed for blue suits were $12.75, $15.45, $17.50, $19.75, and $25. Except for the $17.50 price, at which approximately 40 to 50 suits would be carried, between 60 and 70 suits would be carried at each price. The group was purchasing under its own brand a blue suit which was being sold at $12.75 by all the stores. The $15.45 suits were a manufacturer's branded line for which the Hampton Company had the exclusive agency in the city. Because the company had sold a suit at this price for several years, the buyer believed that there would be sales resistance if the price were changed. The price line of $17.50 was selected primarily because it had been used previously in the department. In the case of the $19.75 price line, the buyer considered that customers purchasing blue suits at about the $20 level were in the same category as the customers for $14.75 knicker suits, in that they were influenced by an odd-figure price. The highest price line proposed for blue suits, $25, had been used

by the Hampton Company for several years. The demand for blue suits at prices above $25 was negligible.

At the time the buyer was considering price lines, the boys' department had only a few overcoats in stock. The other stores in the group purchased most of their overcoats through the association. The buyer planned to join in these group purchases and to use the prices used by the other stores, namely, $14.75, $20, $25, and $30. He believed, however, that the Hampton Company should carry an overcoat at a lower price also. He knew that overcoats of the quality which he thought the company should sell would cost between $7 and $8; competing stores had sold coats of similar quality at the beginning of the season at $11.75. Hence he planned to use this price. The buyer estimated that 150 overcoats should be carried at each price line at the beginning of the season.

The buyer proposed to use $10 as the lowest price line for topcoats, believing that a topcoat at this price was comparable to an overcoat at $11.75. Competitors were using the $10 price also. Instead of $14.75, which the stores in the group were using for topcoats, the buyer proposed to use a $15 price. The other price lines for top coats were to be $20 and $25.

In January a competitor of the Hampton Company was selling a leather coat at $11.75 the cost of which was $8. Although the Hampton Company also was selling the same make of leather coat at $11.75, the buyer believed that the competing store would raise the retail price to $13.95 within a short time. He proposed, therefore, to use $13.95 as the lowest regular price line. The buyer proposed to use $20, $25, and $30 as the other regular price lines for leather coats. Although the company previously had sold leather coats at $19.75, the buyer believed that he would have no difficulty in obtaining $20 for these coats.

The buyer decided to carry one brand of slickers to sell at $4.50 and $5, the latter price for the larger sizes. Other stores in the city were using these prices also.

Except in a few cases there was no difference in the costs of regular and stout size wool knickers. Sales of stout sizes were small; hence the buyer proposed to establish $2, $2.95, $3.95, $5, and $7.50 as regular price lines for wool knickers without regard to size. These prices were being used by the Hampton Company and also by its competitors. The usual cost prices of the knickers which sold at $2, $2.95, and $3.95 were $16.50, $22.50, and $30

a dozen respectively. The buyer expected to carry between 150 and 200 knickers at each of these three prices. At $5 and $7.50, only 50 to 75 knickers would be carried in stock; these would include more of the larger sizes.

Corduroy knickers would be carried at two prices only, $2.50 and $3.50. Competitors carried similar qualities of corduroy knickers at these prices. Although a few competitors sold corduroy knickers of lower quality at $1.95 and at $2.95, the difference in quality, because corduroy material was of staple character, was readily apparent to customers.

The buyer knew that summer knickers could be manufactured to sell at wholesale for $8.50 to $9 a dozen. He did not know the prices at which competitors would sell these knickers. In order to secure the desired mark-up for the boys' clothing department, he proposed to establish $1.15 as a price line for knickers of this quality. The next higher price line for summer knickers which the buyer proposed was $1.35. Salespeople were of the opinion that this price was better than $1.25. Although the company had sold knickers at $1.75, the buyer believed that competition would force a lower price. He proposed to use $1.65. The highest regular price line selected for summer knickers was $2.

The buyer did not attempt to establish price lines for merchandise sold in special events or in clearance sales. The company's policy did not permit the use of regular price lines in special events or in clearance sales. Merchandise was reduced in price to a lower regular price line only under exceptional circumstances. A reduction of this character was permitted when the merchandise reduced consisted of complete assortments or when there had been a radical change in the wholesale cost.

SECTION IX

BRAND POLICIES

SUGGESTED READING

BORSODI, *The Distribution Age.*

CHASE & SCHLINK, *Your Money's Worth.*

COPELAND, *Principles of Merchandising*, pp. 118–121, 254–276.

FRI, *Retail Merchandising*, pp. 326–328.

MAYNARD, WEIDLER, & BECKMAN, *Principles of Marketing*, Chap. XXX, pp. 607–614.

MURPHY & BLOCK, *Buying* (Alexander Hamilton Institute, Modern Merchandising Texts, Vol. V), pp. 63–71.

See also cases of Milburton Brothers, 3 H.B.R., 214; and H. R. Cunliffe & Company, 5 H.B.R., 338.

1. FOLLEN COMPANY

DEPARTMENT STORE—BRAND POLICY FOR WOMEN'S COATS

Early in the summer of 1929 the Ellery Association, a department store association of which the Follen Company was a member, extended the scope of its group buying to include winter coats to retail at $100. After the Follen Company decided to purchase coats through the group, the question arose whether it should sell these coats under the Dorothy-Anne name, the brand under which a line of $40 dresses was sold by the stores in the association.

The Follen Company, a department store with annual sales of nearly $20,000,000, was located in the shopping district of a large eastern city. It carried merchandise of medium and high grade. The Ellery Association included department stores in all parts of the country. The New York office functioned as a clearing house for current market information and also arranged for periodic displays of merchandise. The lines purchased by the stores as a group included a wide variety of items, among them the $40 Dorothy-Anne dresses and the $100 winter coats. Experience had shown that the Dorothy-Anne dresses, retailing at $40, were as high a grade of dress as could be successfully bought through the association.

Dorothy-Anne dresses were advertised in a women's national magazine of fashion. At the outset it had been assumed that this advertising would bring prestige to the brand and to the stores selling the brand. The merchandise manager of the Follen Company, however, doubted the efficacy of this national advertising, since the magazine had a circulation of only 2,000 copies in the retail shopping area reached by the store. Dorothy-Anne dresses were featured also in the local advertising of the Follen Company.

The coat department which corresponded to the dress department in which the Dorothy-Anne dresses were sold carried winter coats to sell at prices ranging from $75 to $185. Most of the sales in the coat department were made at prices between $85 and $165. In the dress department, prices ranged from $40 to $65. The merchandise manager of the Follen Company estimated that a woman who was accustomed to buying $40 dresses would

pay about $125 for a winter coat. The merchandise managers of the other stores in the association, however, thought that a winter coat to sell at $100 would be better for the group as a whole. The new line of coats would be selected by a group of buyers from many stores, rather than by a single buyer. The coats, like the Dorothy-Anne dresses, would be featured as outstanding values and would carry a mark-up of 34%. The original mark-up in both the dress and coat departments of the Follen Company had averaged about 38%.

Previously dresses alone had been sold under the name Dorothy-Anne. The divisional merchandise managers of the group hesitated to extend the brand to another article; for if the brand was used on another item, it might eventually be extended to dissimilar types of merchandise. The advertising manager of the Follen Company, however, was of the opinion that brands should be consolidated so that enough advertising could be done on each brand to create consumer recognition. He stated that so many brands, both private and national, were in use that merchandise managers could not remember all the brands carried in their own departments.

During the previous year the Follen Company had begun to use a brand under which it sold, among other things, a line of $25 dresses developed by the company. These dresses were designed by the company's buyers and were planned to be of unusually high value. Often they were copies of dresses selling for $50 or $60. The store also offered under its private brand a line of hosiery sold by other stores under other brand names.

The officers of the Follen Company were convinced that the store's reputation locally was far more important than any national advertising. For instance, the Follen Company sold a nationally advertised line of rain coats, not because of the national advertising but because of the high quality of the coats. In general, merchandise was stocked because it was of the desired type, not because it was or was not branded.

The Ellery Association had followed the practice of placing the name Ellery on the better articles of merchandise which it sold. About three-fourths of the merchandise purchased by the association was so branded. The Follen Company used this name in its local advertising. In addition, the Follen Company followed the policy of sewing a label, bearing its own name, in each garment sold.

What brand policy should the Follen Company have adopted for the newly added line of women's coats?

2. ECKART COMPANY

DEPARTMENT STORE—BRAND POLICY FOR HOSIERY

In December, 1924, the assistant merchandise manager of the Eckart Company was making plans for the hosiery departments for the spring season of 1925. There were two hosiery departments in the Eckart Company's store. One of these departments sold only Daisy hosiery, a well-known nationally advertised brand on which the manufacturing company endeavored to maintain resale prices by selling only to those stores which agreed to sell its hosiery at the prices that it set. The other hosiery department sold hosiery under the store's own brand and under nationally advertised brands of manufacturers who did not undertake to maintain resale prices. The assistant merchandise manager considered discontinuing the sale of Daisy hosiery. He was of the opinion that the manufacturer's policy of price maintenance limited the volume of sales of that hosiery.

The Eckart Company, which was located in a city of 1,000,000, had annual sales of approximately $7,500,000. It carried full lines of men's, women's, and children's clothing, piece goods, house furnishings, and furniture. Most of the merchandise carried by the store was of medium grade.

The Eckart Company had opened the special department to sell Daisy hosiery in 1922 in order to build up its total hosiery sales, which had not reached the standard set by the rest of the store. The company had chosen Daisy hosiery for this purpose because of the prestige of that brand, and also because the manufacturer had agreed to pay one-half of the store's advertising expense for that brand of hosiery. The manufacturing company sometimes advertised locally in newspapers entirely at its own expense and commonly gave the stores selling this hosiery dealer helps such as counter signs, attractive boxes for the hosiery, and window displays. The manufacturer also advertised in magazines of large national circulation; usually retail prices were not stated in this advertising. The sales manager of the manufacturing company tried to cooperate with the retailers by helping the

department buyers to keep their stocks fresh, fashionable, and rapidly moving. The manufacturer permitted retailers to exchange non-salable running numbers for other numbers which they preferred. Running numbers were styles and sizes which the company was manufacturing currently. The manufacturer did not require any agreement as to the length of time during which a store would sell Daisy brand hosiery. In the first 11 months of 1924, the Eckart Company spent about 2.2% of the net sales of Daisy brand hosiery in advertising that line. The newspaper advertising expense of the other hosiery department was 5.3% of net sales.

The company manufacturing Daisy hosiery sold to all stores which met its requirements as to price maintenance. Two stores competing directly with the Eckart Company had separate hosiery departments carrying full lines of Daisy hosiery; one other competitor sold small quantities of that hosiery in its regular hosiery department. These stores all advertised Daisy hosiery locally.

The net sales in 1923 of the department selling Daisy hosiery had been $84,000; the net sales of the other hosiery department had been $252,000. The retail prices of the hosiery sold in both departments were approximately the same, ranging from 59 cents to $4 a pair, with a majority of the sales at prices from $1 to $2.95. The hosiery in each department was sold in five sizes and in about forty colors and styles. The stock-turn in each of the two departments was about four times a year.

The Eckart Company ordered 60% of its hosiery for each season in advance and placed fill-in orders monthly. The cash discounts offered on purchases of unbranded or nationally branded hosiery other than the Daisy brand varied from 2% to 4% for payment within 10 days, net 30 to 60 days. The credit terms on the Daisy brand hosiery were 2% for cash in 10 days, net 30 days. Quantity discounts were not given for either the branded or the unbranded hosiery, but purchases of large quantities at lower prices sometimes could be made for special sales in lines other than the Daisy lines. The manufacturer of Daisy hosiery did not sell at reduced prices to retailers seeking merchandise for special sales events. The retail prices specified by the manufacturer allowed retailers a mark-up of 32% on retail.

The manufacturer permitted retailers to sell Daisy hosiery at reduced prices, provided the identifying labels were removed

and the hosiery sold as unbranded merchandise. The Eckart Company occasionally held such sales. The store obtained an average gross margin of 29% on net sales of Daisy hosiery for the first 11 months of 1924. In the other hosiery department the average original mark-up was 34% of retail, and the average gross margin was between 29% and 30% of net sales. The assistant merchandise manager wished to increase the net sales in the hosiery departments and to maintain a minimum gross margin of 30% on net sales. The operating expenses in the department selling Daisy hosiery had been 26% of net sales. The assistant merchandise manager believed that the volume of net sales in the Daisy hosiery department could be increased by 25% if special sales events could be held frequently. In this instance he did not refer to mark-down sales on merchandise already purchased but to sales at prices lower than usual of from 5,000 to 6,000 pairs of hosiery bought at prices from 5% to 10% lower than the manufacturer's regular prices. Occasionally a manufacturer of unbranded hosiery or of a nationally advertised brand of hosiery reduced prices on large lots of hosiery in order to maintain the goodwill of retailers, to dispose of exceptionally large stocks, or to decrease selling expenses and overhead charges by selling a large quantity at one time. The assistant merchandise manager stated that hosiery of the same quality and style as the Daisy hosiery could be procured under the store's own brand to sell at the same retail prices. Deliveries could be obtained in three or four days from several manufacturers; whereas deliveries from the manufacturer of Daisy hosiery were made in a week or ten days, unless the order was for a particularly popular style or color, in which case deliveries frequently were delayed for three or four weeks, and sometimes could not be obtained at all.

Should the Eckart Company have discontinued selling Daisy hosiery?

3. ARVEE COMPANY

DEPARTMENT STORE—BRAND POLICY IN RADIO DEPARTMENT

The Arvee Company was a department store with sales of approximately $13,000,000; it was centrally located in the shop-

ping district of a large industrial city. The sales of the radio department were $234,000 in 1926, $228,000 in 1927, and $225,000 in 1928. During these years the radio department's operations were unsatisfactory, and the buyer and merchandise manager were seeking ways to improve the department's operating results. In the spring of 1929 it was suggested that the company sell radio sets under a private brand.

Approximately 95% of sales in the radio department were made on installment terms, 4% charge, and 1% cash. The department carried only complete sets and such accessories as tubes, batteries, and loud speakers. No parts were sold. Phonographs and records also were carried in the department. Operating statistics for the fiscal years 1927 and 1928, together with the planned figures for 1928, were as shown in Exhibit 1.

EXHIBIT 1

ARVEE COMPANY

Radio Department—Operating Statistics for 1927 and 1928

(Net Sales for Each Period = 100%)

	1927 Actual		1928 Actual		1928 Planned
Gross Sales	$277,874		$294,140		
Returns	49,580	17.8 %	68,744	23.4 %	
Net Sales	228,294	100.0	225,396	100.0	$228,600
Beginning Inventory—Cost	37,458		32,824		30,000
Purchases—Cost	151,168		142,616		.....
Ending Inventory— Cost	32,824		25,147		27,000
Cost of Merchandise Sold	155,802		150,293		.....
Workroom Costs	12,284		10,496		.....
Gross Margin	60,208	26.4	64,607	28.7	39.0 %
Total Operating Expense	66,673	29.2	64,226	28.5	29.0
Merchandise Profit	6,465*	2.8*	381	0.2	10.0
Discounts Earned	3,087	2.0†	3,031	2.1†	2.0†
Total Operating Profit	3,378*	1.5*	3,412	1.5	11.2
Mark-downs	12,074	5.3	16,966	7.5	2.0
Employee Discounts	2,508	1.1	1,460	0.0	.....
Inventory Shortage	6,804	3.0	3,101	1.4	1.0
Amount Paid Service Company	.....		11,036		.....
Amount Received for Service Calls	.....		2,326		.....
Number of Transactions	26,435		18,058		.....

* Figures shown in red.
† Percentage of billed cost.

Five lines of radio sets were carried, with five models in each line. The prices ranged from $115 to $575. Because of the rapidity with which styles and models changed, it was imperative that only small stocks be carried; consequently the store purchased but a few sets of each model. Reorders could be obtained quickly

from the manufacturers' distributors. Cabinets were secured directly from cabinet shops. The store usually purchased 100 cabinets at a time in 25 different models.

Radio sets required much servicing after they were sold. The store installed the sets and gave customers free service for 30 days; after that, a charge of $2.50 was made for each call. As soon as a set was installed, the service man had the customer sign a card stating that the set was working satisfactorily. Since most purchasers of radios knew little or nothing about the construction and operation of a set, many of the service calls received from customers were not occasioned by faults in the sets purchased. For instance, electrical disturbances in the neighborhood, such as those caused by street cars, often resulted in poor reception. The manager of the radio department estimated that during the period of free service at least two calls were made for every set sold.

The Arvee Company did not operate a radio service department but referred all calls to a service company with which the store had a contract. Knowledge of radio operation, however, was prerequisite to employment in the radio department. The store had attempted to operate its own service department when it first opened a radio department, but the results had been unsatisfactory. Many requests for service were received and calls made at night. When the service man had been working late at night, he could not be depended upon to report at the store promptly the next morning. The service company handled only the calls of the Arvee Company and received $2 for each call made. This arrangement had proved entirely satisfactory. The owners of the service company did the actual repair work and did not object to long hours.

All the radio sets carried by the Arvee Company were being sold under manufacturers' brands. Established radio manufacturers often aided retailers in their advertising by sending them copy already prepared and by paying half the space costs of the advertising. In introducing a new model, furthermore, manufacturers often advertised in newspapers independently of the retailers.

The copy supplied by the manufacturer was, as a rule, placed on the radio page of a newspaper. Most of the radio dealers in the city ran their advertising on the radio page. In most newspapers this page was near the want-ad section, and a great many of the firms whose radio advertisements appeared there emphasized cut-

price features. Because of the quality of its advertising, the Arvee Company had been able to secure financial aid from manufacturers without having to use their advertising copy. The Arvee Company had encountered little price-cutting by competitors who were appealing to the same type of customers as was the Arvee Company. No competitors were selling radio sets under private brands.

The store was opposed to accepting exclusive agencies for radio products. None of the long established radio manufacturers offered such contracts, and when they were offered by new companies it was usually necessary for the retailer to do most of the promotional work.

In order to increase the gross margin of the department, the buyer considered selling radios under a private brand. The Arvee Company was a member of a group buying association which was about to negotiate with radio manufacturers for the purpose of arranging group purchases of radio sets. With other members of the group buying association the Arvee Company's buyer interviewed the Shortwave Radio Company, a well-known manufacturer, and eventually made arrangements to purchase that company's newest set, the Kilotron, as a private brand radio set. The Shortwave Radio Company retained permission to sell the sets under the Kilotron brand to anyone and required each of the associated stores to set a price on the sets at least as high as that at which the Kilotron set was retailed. The Arvee Company wished to purchase the cabinets elsewhere. On account of a contract with the Radio Corporation of America, however, the Shortwave Radio Company would not sell the radio set without the cabinet, since it was required to pay a royalty on the complete set whether the cabinet was sold or not.

Through the group buying association the Arvee Company obtained from the manufacturer the discount which was usually offered to wholesalers; consequently the company decided to buy a quantity of the sets, expecting to sell them at a higher mark-up than was obtained on other sets sold in the department. The retail price would be either $149.50 or $159.50. The company could use the Shortwave Company's name in its advertising if it so desired.

After the purchase arrangements were completed, the Arvee Company had to decide whether to devise a private brand for the sets, whether to recommend that the buying association devise a brand, or whether to use the manufacturer's brand.

4. LENMORE COMPANY

GROCERY CHAIN—BRAND POLICY

Prior to 1926 the Lenmore Company, which operated a chain of grocery stores, had purchased the assets and trade names of several competing chain grocery companies situated in its vicinity or in adjacent territories. The company had acquired so many brand names, both for similar products and for different products, that the executives decided in 1926 to consolidate under one brand, "Lenmore," many of the various brands that had been applied to merchandise of the highest quality carried by the company. Within two years the company had effected this simplification of brands and had secured consumers' recognition of the new brand with no loss in sales. In 1929 the number of products that the company sold under its own brand names other than Lenmore was small, since only in a few items did it carry more than one quality of product under any one of its private brands. In that year, however, executives of the company questioned the soundness of placing one dominant brand on a diversity of products, and considered using several new brand names in addition to the Lenmore brand. The company wished to continue the Lenmore brand but had not decided for what products to retain it.

The Lenmore Company's offices and warehouses were located in a western city of approximately 600,000 population, and its 1,000 stores were within a radius of 100 miles of this city. In 1928, total sales were approximately $50,000,000. All the stores sold groceries, dairy products, eggs, bread, pastry, citrous fruits, and vegetables; 80 stores also sold meats. Sales of groceries and dairy products represented approximately 65% of total sales, meats 20%, and vegetables 15%. The company had the reputation among its customers of selling merchandise of good quality.

The Lenmore brand was used for practically the entire line of products, including many varieties of canned goods, dairy products, eggs, flavoring extracts, coffee, tea, and condiments. The soaps, cleansers, polishes, and laundry supplies sold by the Lenmore Company were almost entirely under nationally advereised brands. Most fruits, vegetables, and meat products could not be branded, but the company used a private brand for cured ham. It used a few private brands for products lower in quality than the Lenmore brand. For instance, it applied the name "Turret" to lower grades of canned goods, preserves, and coffee.

The company also used other brand names for a few individual products such as bread, which it sold under the brand name "Supreme," and pastry flour, which it called "Our Own" to distinguish it from bread flour, called Lenmore.

In a few lines price competition forced the company to depart from its usual policy and to carry other qualities in addition to the Lenmore quality. For instance, the company sold four qualities of canned peas regularly priced at 22 cents, 20 cents, 16 cents, and 12 cents. The first and third were the Lenmore Company's brands, and the other two were manufacturers' brands. An executive of the company stated that in a year's time as many as 12 manufacturers' brands had been stocked successively in the lowest quality of canned peas.

The number of branded articles carried by the Lenmore Company, classified according to types of product, was as shown in Exhibit 1.

EXHIBIT 1

LENMORE COMPANY

Products Carried, Classified According to Types of Brand

Type of Product	Items Carried (Each Item May Include One or More Sizes)				
	Lenmore Company's Brands			Well-known, Nationally Advertised Brands	Unbranded or Little-known Brands
	Lenmore	Turret	Others		
Canned Goods	17	7	..	67	33
Preserves	9	..	1	10	4
Beverages	1	..	4	19	...
Coffee	1	1	1	2	...
Tea	7	1	3	1	...
Extracts and Spices	8	1	..	19	4
Condiments	6	1	..	20	7
Desserts and Cocoa	1	..	..	41	1
Flour	1	..	2	2	...
Dry Foods	11	1	..	8	16
Packaged Fish	2	..	1	9	11
Baking Powder, Salt, and Soda	..	..	..	10	1
Cereals	3	..	..	31	...
Butter	1	..	1	...	1
Eggs	1	..	2	...	...
Total	69	12	15	239	78

In adopting the brand name Lenmore throughout most of the company's line of products, executives had reasoned that the company's advertising would be concentrated and consequently would help to sell all the products carrying that name. The executives believed, furthermore, that a customer who purchased and liked one Lenmore product would also buy other Lenmore products. Several times in 1929, however, the executives had occasion to consider changing the company's brand policy. For instance, during the summer several customers had complained regarding the quality of the Lenmore brand of butter and eggs. Executives believed that in these instances individual store managers had failed to keep the merchandise properly iced. During 1929, moreover, the Lenmore Company planned to manufacture and package chocolates under one of its own private brands. Executives believed that these chocolates, which were to retail at 49 cents a pound, were equal in quality to chocolates which candy stores sold at from 75 cents to $1 a pound. The company intended to sell the new product entirely through its own stores but anticipated sales resistance to these chocolates if they bore the Lenmore brand.

Executives of the Lenmore Company believed, furthermore, that the principal chain grocery company competing with it was capitalizing on the apparent predominance of the Lenmore brand in the company's stores by telling customers that the Lenmore Company was attempting to promote its own brands exclusively, and perhaps did not carry many of the nationally advertised brands. The executives thought that there was little difference between the attitudes of the two companies toward nationally advertised brands. In its advertising, however, the competitor frequently made statements regarding its policy toward nationally advertised products, such as, "You are sure to find the popular, nationally advertised brands of groceries at our stores" and "We specialize in nationally advertised brands of groceries." The Lenmore Company did not sanction attempted substitution of the Lenmore brand for one which a customer had requested.

The appearance of the Lenmore Company's stores tended to confirm the impression that the company was emphasizing its own brand, since the products packaged under the Lenmore brand occupied a large proportion of space in the stores. The company's newspaper advertising also created the impression in customers' minds that the company was emphasizing the Lenmore brand. The advertisements usually referred to four or five nationally known grocery items, and staple products, such as lard and sugar,

at special prices; a few additional manufacturers' brands; and four or five items under the Lenmore brand. An analysis of items represented in a typical advertisement of the company is shown in Exhibit 2. Usually the nationally advertised brands were given prominence by being allotted more space and put in larger type than was the case with the Lenmore brand.

EXHIBIT 2

LENMORE COMPANY

Prices and Mark-up on Items Advertised during Week of June 23, 1929

Item	Advertised Price	Mark-up as Percentage of Retail
Evaporated Milk—Nationally Advertised Brand	3 cans $.25	3%
Catsup—Nationally Advertised Brand	$.19 bottle	10
Standard Canned Peas—Manufacturer's Brand	2 cans $.21	10
Soap—Nationally Advertised Brand	$.05 bar	3
Prunes—Bulk	2 lbs. $.19	10
Safety Razor Blades—Nationally Advertised Brand	3 pkg. $1	10
Sandwich Bread—Lenmore Brand	$.19	25
Relish—Lenmore Brand	$.19 bottle	25
Sliced Beef—Lenmore Brand	$.23 jar	25
Layer Cake—Lenmore Brand	$.19	25
Crackers—Manufacturer's Brand	2 pkg. $.33	18
Shrimp—Manufacturer's Brand	$.15 can	15
Butter—Lenmore Brand	$.45 lb.	5
Flour—Nationally Advertised Brand	$.99 sack, 24½ lbs.	5
Potatoes—Bulk	$.25, 10 lbs.	5

In 1928 approximately 30% of the Lenmore Company's total sales, or about half its sales of branded products, were of its own brands, two-thirds of which the company manufactured in its own plant and one-third of which it purchased. One-half the company's sales of its own brands were made in the Lenmore brand. During 1928 the company had increased only slightly the number of products sold under its private brands.

In the opinion of one executive it was easier to sell a nationally advertised brand than a private brand. This belief was substantiated partially by an experience of the company in 1928 in marketing packaged cocoa under the Lenmore brand. The company had ground and packaged the cocoa in its own manufacturing plant at a manufacturing cost slightly lower than the cost to the

company of a well-known nationally advertised brand of equal quality. After a year, when even with repeated offerings at special prices the sales of the private brand were only one-third the sales of the nationally advertised brand, the company discontinued the manufacture and sale of cocoa under its private brand.

In another instance, however, the company had introduced its own brand of catsup to sell at 18 cents a bottle, while it sold a manufacturer's well-known brand of similar quality at 23 cents a bottle. The company's own brand had a gross margin higher than the manufacturer's brand by 5% of net sales, and sales were three times as great as those of the manufacturer's brand. In this particular case the company believed that it was justified in having its own brand.

The shipments of different brands of various products during the second quarter of 1929 were as shown in Exhibit 3. Although in most instances the different brands for each product were of equal quality, several did not compete directly. For instance, Miller's Pride flour was of a higher quality than the nationally advertised brands, and the latter were slightly higher in quality than the Lenmore brand. Lenmore flour was sold at a low price in order to compete on a price basis with a brand of its competitor. The baked beans were of the same quality, but differed because the processes of preparation were not the same, the sizes varied, or the beans were grown in different sections of the country. The nationally advertised brands of jellies were pure grape and currant jellies, while the Turret brand jellies had apple bases.

Private brands were used by the company also for products not sold under well-known brands and for some products which usually were sold in bulk, such as split peas. Again, if a manufacturer of a nationally advertised line of groceries was unable to supply the Lenmore Company's total requirements, the company had part of its needs for that product packed under its own brand.

The company, before applying a private brand to a product, sought to make certain that the product would obtain a gross margin greater by at least 5% of net sales than the margin secured on a nationally advertised brand of similar quality. In 1928 the company had secured an average gross margin on groceries of 19% of sales. The gross margin on specific grocery items varied from 15% to 40%. Nationally advertised products sometimes were sold at special prices which gave a margin lower than 10%.

EXHIBIT 3

LENMORE COMPANY

Shipments from the Warehouses of Lenmore and Outside Brands of Selected Products, in Percentages of Total Shipments of the Products by Units, for Quarter Ending June 30, 1929
(Outside Brands Designated by Letters)

Item	Brand	Weight or Size	Selling Price	Shipments by Units as Percentage of Total Shipments
Flour	Lenmore	5 lb. sack	$ .28	54%
Flour	Miller's Pride	5 lb. sack	.35	8
Flour	A	5 lb. sack	.32	38
				Total.... 100%
Flour	Lenmore	12 lb. sack	.58	35
Flour	Miller's Pride	12 lb. sack	.77	18
Flour	B	12 lb. sack	.68	47
				Total.... 100%
Flour	Lenmore	24½ lb. sack	1.09	36
Flour	Miller's Pride	24½ lb. sack	1.50	6
Flour	A	24½ lb. sack	1.29	26
Flour	B	24½ lb. sack	1.29	32
				Total.... 100%
Canned Beans	E	28 oz.	.24	20
Canned Beans	F	30 oz.	.22	6
Canned Beans	Lenmore	28 oz.	.20	14
Canned Beans	H	18 oz.	.10	34
Canned Beans	G	30 oz.	.19	26
				Total.... 100%
Brown Bread	E	#2 tins	.15	43
Brown Bread	Lenmore	#2 tins	.15	57
				Total.... 100%
Grape Jelly	Turret	7 oz.	.09	51
Grape Jelly	K	7 oz.	.15	49
				Total.... 100%
Currant Jelly	Turret	7 oz.	.09	60
Currant Jelly	K	7 oz	.18	40
				Total.... 100%
Coffee	Lenmore	1 lb.	.47	75
Coffee	M	1 lb.	.55	25
				Total.... 100%
Vanilla Extract	Lenmore	2 oz.	.21	46
Vanilla Extract	N	2 oz.	.33	28
Vanilla Extract	R	2 oz.	.31	26
				Total.... 100%
Spaghetti	Lenmore	9 oz.	.09	65
Spaghetti	J	9 oz.	.11	35
				Total.... 100%

The average gross margin on all types of merchandise, including meats and vegetables, was approximately 22.5%, while expenses were about 20%. The selling expense percentage for groceries was lower than the average for the company as a whole.

The Lenmore Company did not wish to alter its policy by attempting to substitute its own brands for brands requested by customers, but store managers were instructed to fill a customer's order with the company's own brand unless the customer specifically asked for a different brand. The company's own brands were offered at special prices more frequently than national brands. For instance, the company sold its own brand of mayonnaise at special prices six times a year, while it sold a similar product bearing a manufacturer's brand at special prices only three times a year.

The Lenmore Company seldom made arrangements for exclusive sales rights on a manufacturer's brand. Usually, manufacturers wishing the company to make such contracts were small and their production and maintenance of quality uncertain; while large manufacturers, seeking wide distribution, refused to enter into such sales agreements.

The company had standing agreements with many manufacturers of nationally known brands of merchandise to give the products of these manufacturers a certain amount of promotional effort each year. For advertising space in newspapers, handbills, and posters, and for the cooperation of store managers in the sale of their products, the manufacturers reimbursed the company either by means of discounts on purchases or by means of cash payments. The amount of money paid varied from small amounts to as much as $10,000 a year. In most cases the Lenmore Company gave to its customers, indirectly in the form of special prices, the discounts or payments received from manufacturers. Competitors of the Lenmore Company followed a similar policy.

The difference in the rates of stock-turn of private brands and of manufacturers' brands was not large. Although the company did not keep a record of sales by specific items, it knew that the sales of its own brand of mayonnaise, for example, were equal to those of the leading manufacturer's brand; both were purchased in carload lots. In purchasing products to sell under its own brand, the company usually patronized large manufacturers in order to be sure of securing its requirements. Most manufacturers

shipped the merchandise as needed by the company. In one instance, however, the Lenmore Company, taking advantage of the special terms offered by a manufacturer of a nationally advertised brand of tomato soup, who gave a free case for each eight cases of soup purchased during the canning season, purchased almost a year's requirements at one time and stored the merchandise in its warehouses. At other times the price was the same as that paid for the eight cases, but no free case was given.

Although the Lenmore Company's executives were considering the use of several brands for different types of products, they did not know how many brands they should adopt, but they believed that the company should use different brands for different types of products. Classes of merchandise which might have separate brands were as follows: eggs and dairy products, coffee, canned fruits and vegetables, candy, extracts, tea, and carbonated beverages. Extensive promotional efforts, such as advertising and sales at special prices, would be necessary for a period of at least a year to secure customer recognition of the new brands. Inasmuch as the company had sustained no loss of sales, however, in securing recognition of the Lenmore brand in place of the various brand names which it had had in 1926, the executives believed that the company could accomplish the contemplated change if it so desired.

Should the Lenmore Company have planned to increase the proportion of sales made under its private brands?

What changes, if any, should the company have made in the number of its private brands and in their application to lines of merchandise?

SECTION X

RELATIONS WITH MERCHANDISE SOURCES

SUGGESTED READING

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MAYNARD, WEIDLER, & BECKMAN, *Principles of Marketing*, Chaps. X–XII.

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1. SORENTO COMPANY

DEPARTMENT STORE—SOURCE OF PURCHASE FOR HOSIERY[1]

The Sorento Company operated a department store which had an average sales volume of $2,000,000 annually. The store was located in an eastern city of 100,000 population within 30 miles of a city with a population of approximately 1,500,000.

The Sorento Company sold a complete line of women's hosiery at prices which ranged from 59 cents a pair to $2.95 a pair. The price range of style hosiery was from 75 cents to $2.95, with $1.95 as the most popular price. Hosiery was purchased directly from the manufacturers. Although no fixed rate of mark-up was set for the hosiery department, the average gross margin desired was 33⅓% of net sales. The hosiery department was charged with all direct expenses, interest on the average inventory at 6% per annum, and general overhead expenses, which were apportioned among departments on the basis of sales volume.

The sales and the gross margin and expense percentages of the hosiery department from 1919 through 1921 were as follows:

Net Sales = 100%

Year	Volume of Sales	Percentage in Staple Hosiery	Percentage in Style Hosiery	Gross Margin	Expenses
1919	$45,000	90%	10%	33%	30%
1920	50,000	85	15	33	29
1921	60,000	75	25	17	27

The loss in 1921 was a result of the liquidation of a large inventory at a substantial reduction in prices. In September, 1921, the Sorento Company temporarily shifted its policy of buying hosiery directly from manufacturers to a plan of buying it from wholesalers. During the years immediately prior to 1921, the average inventory at cost in women's hosiery had been from $13,000 to $17,000; but in September, 1921, the inventory amounted

[1] See case of M. Farnsworth & Company, Copeland, *Problems in Marketing* (Third Edition), page 150. See also case of the Drury Hosiery Mills, 1 H.B.R., 276, and 2 H.B.R., 476.

to $27,000 and was badly assorted. In the spring of 1922, when sales increased, the hosiery buyer raised the question whether the store should continue to purchase women's hosiery from wholesalers or return to the policy of purchasing directly from manufacturers.

Manufacturers had sold hosiery to the Sorento Company on terms of 2% 10 days, 60 days extra, f.o.b. factory, with a minimum order of one-half case. A half-case contained 30 dozen pairs of hose, which could be secured in assorted colors, materials, and sizes in quantities from one-quarter dozen to one dozen, depending on the unit of boxing. Since most of the hosiery manufacturers from whom the Sorento Company had purchased up to September, 1921, did not maintain in-stock departments, the date of delivery usually had been three or four weeks after the order had been placed. Some other hosiery manufacturers, however, did maintain in-stock departments and were able to make deliveries promptly. Charges for freight and express varied from 1% to 5% of the billed cost of the merchandise.

Demand from customers for hosiery of a newly fashionable shade usually reached the Sorento Company approximately five weeks after it began in New York, about three weeks after it appeared in the specialty stores in the nearby large city, and at about the same time that it reached the department stores in that city. During the period from 1919 to 1922, three or four style numbers usually had been popular for an entire season, and several other numbers popular for shorter periods.

Wholesalers' prices on hosiery were higher than those of manufacturers, and the terms granted were 2% 10 days, 60 days extra, f.o.b. the Sorento Company. For instance, hosiery to be sold by the Sorento Company for $1.95 a pair could be secured from manufacturers for $14 a dozen, whereas wholesalers asked $15.50 a dozen for similar merchandise. Wholesalers would accept orders for any quantity and deliver the merchandise within 24 hours.

Before September, 1921, when buying from manufacturers, the Sorento Company regularly had placed orders in January for delivery in March, April, and May; and in July for delivery in October, November, and December, for from $10,000 to $12,000 worth of hosiery. Then from time to time fill-in orders had been placed, ranging in amount from $500 to $1,000. Fill-in purchases had been made from the manufacturers when possible, although frequently such purchases had been made from wholesalers.

The Sorento Company sold a few nationally advertised brands of women's hosiery, but such sales constituted only a small proportion of the store's total hosiery sales. Both the nationally advertised brands of hosiery and the unbranded hosiery of the same quality, which had been purchased from manufacturers, were secured from wholesalers during the period from September, 1921, to March, 1922.

Should the Sorento Company have continued to purchase women's hosiery from wholesalers, or should it have returned to its former policy of purchasing directly from manufacturers?

2. BRIGHAM COMPANY

DEPARTMENT STORE—SOURCES OF PURCHASE FOR DRESSES

The Brigham Company, a department store in New York City, had departmentized its women's and misses' lower-price dresses according to their prices, namely, $15, $19.50, and $25. Because customers often shopped in all three departments before purchasing a dress, each department faced competition within the store from the other two departments as well as the competition of other stores in the same city. It was necessary, therefore, that each buyer offer outstanding values in her department. Dress values were dependent largely on style, workmanship, and material. Two former buyers in the $25-dress department had purchased 25% of the dresses of the department ready-made from stock houses, and the remainder from manufacturers who had made up the dresses according to the buyers' specifications. Because the sales of the department had been unsatisfactory during the spring and summer of 1928, a new buyer had been placed in charge of the department during the fall. Believing that style was the most important factor in $25 dresses and that the best style could be obtained in dresses manufactured on specification, this buyer purchased practically all the dresses for the department from manufacturers on orders, in preference to buying ready-made dresses from stock houses.

The Brigham Company could purchase $25 dresses from four types of resources. The first type was the job-lot house. Such

firms bought the surplus stocks of stock houses and manufacturers specializing in dresses above the $25 retail selling price. If the company purchased from these resources, it was required to take a certain assortment or lot of dresses. While a lot included some dresses which were better than the average $25 dresses, it also had dresses in it which, because of poor style, were not worth $25. The company had never used this type of market resource.

The second type of resource was the stock house, which did not manufacture the dresses it sold but had them made up by outside agencies or contractors. While stock houses usually sold dresses already made up, they also accepted orders for dresses to be manufactured according to the purchaser's specifications. If the buyer of the Brigham Company bought $25 dresses from this type of resource, she could select from racks the dresses she wanted, which would be delivered immediately, or she could select models from which dresses would be manufactured and delivered within a few days.

These stock houses had developed partly because of the increasing importance of fashion. Many former manufacturers of ready-to-wear dresses had devoted all their attention to selling and had turned production over to outside agencies or contractors. There were certain economies which had come about through this specialization. The type of man needed to secure the greatest output from the employees of a contracting concern usually was not the type of man who could forecast fashions and sell successfully. It was apparently true, also, because of existing conditions in the ready-to-wear field in New York, that a stock house could have dresses manufactured more cheaply by others than it could manufacture them itself. Since the only equipment required by a contractor consisted of a few sewing machines, many firms had entered this business. It was estimated that there were approximately 30,000 contractors in New York City. Competition was very keen among them.

Stock houses were extremely alert in matters of fashion. They studied closely dresses displayed by New York stores with reputations for fashion leadership and dresses brought out by stock houses and manufacturers selling higher-price lines. If there was evidence that a particular model was popular at a retail selling price of $35 or $39.50, a stock house specializing in $25 dresses would copy the model and buy material that was similar to the fabric in the higher-price dress, but of lower quality. The stock

house would then contract with one or more contractors for a large number of dresses of this model and material.

An executive of the Brigham Company estimated that a stock house made an average gross profit of $1 on a dress to retail at $25, which it usually sold to the retailer for $16.75. The profit of the contractor was small also and depended largely on his ability to obtain the maximum output from his poorly paid employees. Whenever possible, he increased his production and thereby his profit by giving less attention to workmanship than usual. The stock house, however, could reject garments which did not meet specifications. Conditions in contracting establishments, or sweat shops, were not conducive to pride in craftmanship among the employees. The great number and small size of these concerns prevented any betterment of working conditions by unions.[1]

A third type of resource was the concern which had large and varied stocks of ready-made dresses and carried on its own manufacturing. Such companies developed their own styles. They also accepted orders for dresses to be manufactured according to the purchaser's requirements. Since they did their own manufacturing, they were able to supervise production closely. Workmanship tended to be better in dresses from resources of this type than in dresses from stock houses which did not do any manufacturing.

The fourth type of resource was the manufacturer who carried small stocks and manufactured most of his dresses to specification on the orders of stores. He manufactured the dresses in his own establishment or sublet the work to outside contractors. Deliveries were made within a period of from three days to three weeks.

In the opinion of the Brigham Company's executives, dresses purchased ready-made and dresses manufactured to order did not differ essentially in workmanship and material. The executives reasoned that satisfactory workmanship was assured by the company's policy of examining rigidly all the dresses which it purchased. The same high standards of workmanship were required of dresses purchased ready-made and of dresses manufactured to order. The company's past experience had not shown that either type of resource consistently offered better materials.

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[1] See case of Women's Garment Makers' Union v. Ilman Company, 4 H.B.R., 437.

The new buyer of the $25 dresses believed that ready-made dresses purchased from stock houses did not possess as good style characteristics as the dresses which were manufactured to specification. She therefore purchased nearly all dresses for her department from resources of the fourth type. The remainder of the dresses she obtained from the resources which carried large stocks of ready-made dresses of their own manufacture. The buyer stated that the prices paid for dresses were the same whether the dresses were purchased ready-made or were manufactured to order. For the purpose of following the newest fashion developments the buyer spent approximately one-third of her time shopping in the higher-price dress departments of department and specialty stores in New York City. During these shopping tours she purchased any dress which appealed to her; then she took the dress to a manufacturer and requested him to manufacture similar dresses at a price that would enable the Brigham Company to sell them at $25. She ordered only a few dresses at the outset, but she expected the manufacturer to make up more dresses than she had ordered. The manufacturer made delivery of the initial order within 10 days or 2 weeks. If the dresses sold well, the buyer placed a standing order for that model. Manufacturers were willing to make up more dresses than the initial order called for because they knew that the Brigham Company would take a substantial number of the model if it was successful. In some cases the company had sold as many as 100 dresses of the same model.

The practice of copying dresses to sell at lower prices was common in the market. A dress which sold well at $69.50 was copied to sell at $59.50, then to sell at $49.50, later to sell at $39.50, and so on down the price scale. While the process of copying down was rapid, the buyer of the $25 dresses, by copying $59.50 and $69.50 dresses, was able to offer dresses at $25 several weeks before the same models were shown in the market at this price.

In the opinion of an executive of the company, the policy of buying solely on specification had the disadvantage that delivery of the initial order required from 10 days to 2 weeks. There was a possibility that other stores might bring out the same dresses before the Brigham Company had received its dresses. The buyer's policy of copying dresses priced much higher than $25, however, apparently forestalled this possibility for the most part.

Advance purchasing of dresses also required careful planning if complete stocks were to be maintained. Furthermore, if the company purchased ready-made dresses from stock houses, it could shorten the time between purchase and sale. Dresses to be sold on Saturday could be purchased from stock houses on Thursday or Friday. Fashions, therefore, could be followed more closely than they could be under the buyer's policy; that is, the actual day-by-day changes in demand could be satisfied more quickly. The success of the $25-dress buyer's policy apparently depended on her ability to select the correct styles in advance.

The buyer of the $19.50-dress department had a difficult purchasing problem. In the dress market there were numerous resources, both manufacturing concerns and stock houses, for $15 and $25 dresses. In contrast there were only a few manufacturers and stock houses that handled dresses to be retailed at $19.50. The $19.50-dress department faced strong competition from the $25-dress and the $15-dress departments. It had been necessary for the buyer in this department to develop special styles and seek out special resources. From higher-price dresses sold elsewhere and from her own ideas, the buyer created her own models, which she had made up by manufacturers. She even went so far at times as to buy from textile manufacturers the materials she wished to have in the dresses.

Practically all the $15 dresses sold by the Brigham Company were purchased from stock houses. Executives of the company believed that a majority of the customers for $15 dresses were less fully fashion-conscious than were customers for higher-price dresses. It had been the company's experience that distinctive characteristics in $15 dresses did not appeal to customers. There was no need, therefore, for the buyer to create her own models. The numerous stock houses which sold dresses to be retailed at $15 offered the buyer of this department wide assortments. They offered also quick delivery. An executive of the company stated that he did not care whether these stock houses manufactured their own dresses or had the dresses made up by outside manufacturers. He believed that the company's inspection of all dresses guaranteed satisfactory workmanship.

3. RAY COMPANY

UNIT GROCERY STORE—BUYING PERISHABLE PRODUCE

The Ray Company operated a store in Brookline, Massachusetts, an attractive residential section of Greater Boston. The company carried about 5,000 items of staple and fancy groceries and usually about 35 or 40 items of perishable vegetables and fruits; in addition, it operated a butcher shop in connection with the store. Total sales volume in 1925 was approximately $300,000; the volume of sales of perishable produce the manager estimated at $30,000.

About half the staple and fancy groceries sold by the Ray Company were bought direct from manufacturers and were ordered through the manufacturers' salesmen who visited the store, by telephone, or by correspondence; the rest were bought through the Boston Wholesale Grocery Company, which originally had been organized as a cooperative buying association by a number of unit stores, but which had developed into an independent wholesale company. The unit stores ordered from the Boston Wholesale Grocery Company either by telephone or by personal visits to the company's warehouse; they paid cash for their purchases; and they themselves provided transportation. In effect, this company was a cash-and-carry wholesaler. Retail grocers were able to buy from this company at a saving, which, in 1925, amounted to slightly more than 7% of the prices usually asked by regular wholesale grocers.

The practice of the Ray Company in buying perishable produce was entirely different from its methods of purchasing staple and fancy groceries. Most perishable produce was bought from jobbers and commission merchants, some from farmers who drove their own trucks to the Boston market, and a little from farmers by special contract. Citrous fruits were bought at the auction in Charlestown by a special buyer, who also purchased for a number of other unit stores.

The successful buying of perishable produce was one of the most difficult tasks in the grocery business. It required skill in judging both price and quality, neither of which was in any way stabilized. Ordering by telephone was out of the question, except when a special need arose and when the commission merchant was particularly reliable. Every morning, the perishable produce

buyer of the Ray Company went to the Faneuil Hall jobbing market and shopped around until he found satisfactory produce at satisfactory prices.

The Ray Company had to exercise care in the selection of perishable fruits and vegetables. Its customers insisted on high quality, and furthermore many of them desired to make their selections personally. By carrying high-quality produce the company brought into the store many customers who otherwise would not have bought anything from the Ray Company or who would have ordered only a few items by telephone.

The retail prices of perishable produce were not set in any systematic manner. Perishable goods were subject to wide and frequent fluctuations in wholesale prices. The Ray Company, therefore, did not have a definite price policy for perishable produce; it had been Mr. Ray's experience that it was unwise to make the retail prices of perishable produce follow closely wholesale prices, because customers objected to frequent changes. Generally, therefore, he did not change prices on perishable fruits or vegetables oftener than every 10 days or 2 weeks.

In buying perishable produce should the Ray Company have sought to deal more directly with producers?

4. BRADFIELD COMPANY

GROCERY CHAIN—PURCHASING THROUGH BROKERS

The Bradfield Company, a chain of nearly 2,000 retail grocery stores, purchased a large proportion of its requirements of canned vegetables and fruits through brokers. Executives of the company knew that other chain companies of similar or larger size were purchasing a greater proportion of their requirements of canned goods directly from producers than was the Bradfield Company. Hence they began to consider the possible advisability of effecting a change in the company's buying policy for such merchandise.

The Bradfield Company had sales in 1929 of approximately $65,000,000. It sold staple and fancy groceries under its own or nationally advertised brands, dairy products, vegetables, and fruits. Sales of groceries and dairy products represented approximately 80% of total sales, and vegetables and fruits 20%. Since 1926 the number of stores and the sales volume of the Bradfield

Company had doubled, the increase resulting mainly from the acquisition of other chain grocery companies.

All the company's buying was done at its central office. There were four buyers: one for canned vegetables and fruits; a second for dried foods and for provisions, which included bacon and lard; a third for fresh fruits and vegetables; and a fourth for general groceries, including soap, preserves, condiments, and canned foods other than vegetables and fruits. The general groceries were mostly nationally advertised brands. Canned vegetables and fruits comprised approximately 8% of the company's total sales. About 80% of them were purchased through brokers, 15% from the sales offices of packers of nationally advertised merchandise, and 5% directly from producers. Approximately 70% of the dried foods and provisions were purchased through brokers, and 30% directly. Most fresh fruits and vegetables were purchased through brokers. About 30% of the general groceries were bought through brokers, the remaining 70% being purchased directly from manufacturers.

Brokers customarily represented from 6 to 15 canners, including canners of different products and of similar products. Canners often gave exclusive rights to brokers in different localities; brokers generally acted as agents for the canners they represented. Although under exceptional conditions brokers owned the merchandise they offered for sale, this practice was discouraged by trade associations of brokers. A canner sent invoices for merchandise directly to the buyer, and payment was made directly to the canner; the broker received his fee from the canner after the latter had received payment. In a few instances, brokers financed the canners they represented. Executives of the Bradfield Company did not know definitely what the brokerage fees for the various items of canned goods were, but they believed that they ranged from less than 1% to as high as 5%. The size of the brokerage fee varied with types of products and also with qualities of products. The chief function of the brokers was that of finding buyers for the sellers they represented. Canners of nationally advertised merchandise usually maintained their own selling offices in different sections of the country and had their own salesmen. An executive of the Bradfield Company stated that he believed such organizations frequently had selling costs higher than those of companies that sold through brokers.

It sometimes happened that a seller and a buyer were actually brought together by a broker at the beginning of a season, when the buyer placed a future order for his requirements. Because he knew what the canner could offer and what the buyer needed, the broker was of assistance in arranging terms of purchase. The Bradfield Company customarily purchased 50% of its total orders of canned vegetables and fruits on futures contracts.

The Bradfield Company commonly secured price quotations from 10 to 15 brokers in order that it might compare prices and purchase through the broker quoting the lowest price. Because brokers passed on to buyers the information they were constantly receiving from producers regarding the condition of crops, the company was able to keep in close contact with crop conditions. Executives of the company thought that their policy of buying primarily through brokers had secured for the company the goodwill and cooperation of brokers. In several instances brokers had made the company special offers of merchandise before they approached other companies. It had been the experience of the company also that its emergency orders were filled more quickly than those of companies which purchased directly. Although the quantity of merchandise purchased by the company to carry it over periods of temporary shortage was small, when such orders were placed it was essential that the merchandise be obtainable quickly. A broker who was unable to secure merchandise he wanted from his usual sources usually could obtain it through other brokers in the same locality or in other localities.

Another service performed by brokers for buyers was in adjusting claims when a product did not meet the specifications for quality. This service was a convenience to the buyer, inasmuch as the broker usually was located in the same city as the buyer, whereas the producer frequently was located at a great distance from the buyer. Brokers also made all arrangements for delivery. For instance, when a company purchased an item which was to be delivered over a period of time, the company notified the broker when it wished to have the merchandise shipped; and the broker arranged all the details of shipment.

Executives of the Bradfield Company realized that the brokerage fees paid by producers and packers to brokers on purchases made by the Bradfield Company were substantial, but they were not sure that they could secure lower prices by purchasing directly. Producers and brokers often had had agreements for many years,

which the former would not break. For instance, the company had purchased its canned corn through one broker from one producer for many years; and a request by the company to have this producer sell directly and give the company the brokerage fee had not been successful. Some producers sold directly ostensibly, but in reality quoted the same prices that brokers quoted and paid their brokers their usual fees. The common policy of producers who sold directly to chains was that of quoting the market price and allowing a discount equal to the prevailing brokerage fee. Executives of the Bradfield Company believed that some of the companies that were buying directly were more concerned with the size of the discount received than with the net price paid. An instance of this had been brought to its attention in 1929. A grocery chain purchased by the Bradfield Company in that year had been buying thousand-case lots of a canned vegetable directly from a California canner, at a price of $3.35 a case less a 5% discount, a net price of $3.18¼ a case. The Bradfield Company, at the same time, had been purchasing from other canners the same vegetable, of equal quality and in similar quantities, through several brokers at $3.15 a case. One chain store company which purchased a large proportion of its needs directly from producers judged the efficiency of its buying offices by the size of the discounts they received on purchases; hence the buying office concerned itself mainly with obtaining large discounts rather than low prices.

Executives of the Bradfield Company knew that if it increased greatly the quantity of canned products it bought directly, it would have to establish buying offices in various sections of the country. For instance, the company purchased corn grown in Maine, peas grown in Wisconsin, tomatoes grown in Maryland and Delaware, and fruits grown in California. An executive of the company stated that another chain grocery company which was buying directly had at least five buying offices. The personnel of a buying office would have to be maintained throughout the growing, harvesting, and canning seasons if the company was to assure itself of getting the qualities it wanted. Since brokers represented more than one packer, the company frequently was able to secure its entire requirements of a single product through one or two brokers. If the company bought directly, however, it would be necessary for it to approach many canners, because there were few canners whose production was large enough to supply the company's entire requirements.

The Bradfield Company purchased directly from one producer about 10% of the salmon it sold under its own brand. This amounted to approximately 1,000 cases a year, at a cost of about $25,000. The company received a discount of 5%, equal to the brokerage fee, on these purchases. In this instance the packer had made the initial sale to the company about 10 years previously, when he did not have a broker representing him in the district in which the Bradfield Company was located. The company had placed a small order and, because the quality was good, had given a larger order each succeeding year. This canner had been able to maintain the same standard of quality, and he consistently had given good delivery service also; consequently the company had continued to purchase directly from him. The company commonly did not purchase from small producers because they usually were unable to maintain good quality or to give satisfactory service.

Should the Bradfield Company have planned to purchase a larger part of its requirements of canned vegetables and fruits directly instead of through brokers?

5. LANEY COMPANY

DEPARTMENT STORE—EXCLUSIVE AGENCY FOR MEN'S SHOES

The Laney Company, a general department store in an eastern city of 800,000, had an annual volume of sales which approximated $24,000,000. In 1922 the company purchased the property rights and goodwill of the Adams Company, a men's clothing and furnishings store which adjoined the Laney Company's store. The management intended to continue the operation of the purchased store, which was to be known as the Laney Men's Store. The charge accounts of the Adams Company, on which 60% of the sales had been made, were taken over by the Laney Company.

The Laney Company considered the advisability of retaining the exclusive agency for Dexter men's shoes, a nationally advertised line for which the Adams Company had held the agency for about ten years. These shoes were sold on a quality and style basis at prices which ranged from $9.50 to $14. The Adams Company's profit on the Dexter brand of shoes had been satis-

factory; annual sales had been about $95,000. Because the factory of the Dexter Company was near the city in which the Laney Company was located, deliveries could be made within 24 hours after the orders were placed.

In addition to the Dexter line, several other makes of shoes had been sold by the Adams Company, whose total shoe sales had been approximately $190,000 a year; but none of these competed directly with the Dexter brand. No other store in the city carried Dexter shoes. The agency was not based on a written contract; orders for shoes had been placed as sales warranted, and questions of policy had been settled by the manager of the shoe department and the president of the shoe manufacturing company in meetings held every two or three months for that purpose. An understanding had existed with the manufacturer whereby the Adams Company had spent an amount equal to about 5% of its sales of Dexter shoes in advertising them.

Although the officials of the Laney Company were of the opinion that the prestige attached to Dexter shoes had contributed to the reputation of the Adams Company, they doubted the advisability of continuing the agency. There was no guarantee that the Dexter Company, which operated a few retail stores in New York City, might not at any time establish a store in the Laney Company's city; nor was there anything to prevent the Dexter Company from granting an agency to some other store in the city in addition to the Laney Company. Particularly, however, the management of the Laney Company objected to spending 5% of the sales of Dexter shoes to advertise a manufacturer's brand.

Should the Laney Company have retained the exclusive agency for Dexter shoes?

6. MIDHURST COMPANY

CLOTHING CHAIN—EXCLUSIVE AGENCY

The Midhurst Company, a chain of nine specialty stores selling men's and women's high-grade apparel, had total sales in 1928 of $5,000,000. It had followed a policy of selling branded merchandise in so far as possible. In 1929 it received an offer of an exclusive agency contract to carry "Collegian" suits and overcoats in the district in which it operated.

Collegian suits were made to sell at retail for $45 and above by a company which was well established in the men's suit trade. A complete line of business and dress suits was sold under the brand, as well as several styles of overcoats. The manufacturer restricted his outlets to either the men's departments of high-grade department stores or men's high-grade clothing stores.

The only suits or overcoats that would be sold by the Midhurst Company in addition to those under the Collegian brand would be suits selling below $45 and a line of imported overcoats. When the Midhurst Company received the offer of the agency for Collegian clothes, it was selling various makes under its own label, "Midhurst." The company would expect to place its label on clothes sold under the Collegian brand. While the Collegian line had been manufactured for only a few years, the manufacturer had, during a long period of producing another line of high-grade suits, built up a reputation for manufacturing merchandise of high quality. The manufacturer made no stipulation as to the number of suits and overcoats to be purchased, or the price at which the Midhurst Company should retail them. His advertising did not mention retail prices. The Midhurst Company was large enough, however, to insure a substantial volume of sales; it seldom placed an order with a manufacturer for less than 1,000 suits at one time and, moreover, was steadily expanding by opening additional stores. While it had not covered completely the district for which it was offered the exclusive agency, it expected to do so within a short time. The Midhurst Company did not stress price in its promotional efforts but planned to sell merchandise similar in price and quality to that sold in competing stores of the same grade.

The Collegian brand of clothes had not been advertised in the district in which the Midhurst Company operated. This was chiefly because the line was new and the manufacturer had not yet covered the country completely with his advertising. While no definite agreement with regard to advertising was undertaken in the proposed contract, the Midhurst Company understood that the manufacturer planned a billboard campaign advertising the Collegian line in the Midhurst Company's district. In addition, the Midhurst Company planned to advertise the brand in newspapers over its own name. The company had used newspaper advertising since its founding, although it had devoted the major portion to women's departments. In its advertising it stressed

quality and style, rather than price, since it believed that its customers were primarily interested in these factors. It had followed this same policy in its advertising of men's clothing and would follow it in the advertising of the Collegian brand. The contract could be terminated by the Midhurst Company if it became dissatisfied with the quality of the merchandise or by the manufacturing company if it was dissatisfied with the distribution which was being effected. No special provisions regarding the time covered by the contract, prices, deliveries, or allowances were entered into. The prices offered were similar to those offered by competing manufacturers to any purchaser the size of the Midhurst Company.

Each of the Midhurst Company's leading competitors in the men's clothing field held an agency from some one of the large manufacturers of men's clothing. Furthermore, the Midhurst Company had followed the policy of carrying a high-grade nationally advertised product in each department so far as was possible. For instance, it sold a nationally advertised line of merchandise in the men's underwear department, in the men's and women's glove departments, and in the men's and women's hosiery departments. In addition the Midhurst Company placed its own label on all merchandise it sold.

Should the company have accepted the exclusive agency?

7. SLAWSON & GILBERT

DEPARTMENT STORE—EXCLUSIVE AGENCY FOR WOMEN'S GARMENTS

The general manager of the Slawson & Gilbert department store was offered the exclusive agency in the city in which the store was located for all products of the L. J. Stanley Company, the manufacturer of Stancraft ready-to-wear apparel for women.

Although the ready-to-wear garments manufactured by the L. J. Stanley Company conformed to general fashion tendencies in length and fullness of skirts and other general features, the company had developed semi-standardized styles. Stancraft coats and suits were distinctly conservative and did not reflect any fads or short-lived fashion tendencies. The company had adopted this policy as a means of stabilizing its business. The policy,

furthermore, had been based on the belief that a demand existed for conservatively modeled women's garments, tailored in good taste, that could be worn more than one season. Through large expenditures for advertising in newspapers and in periodicals, the L. J. Stanley Company had made its policy and its trade name well known.

Ordinarily manufacturers and wholesalers in the garment and dry-goods trades sold women's ready-to-wear garments, as well as piece goods, to department stores, metropolitan specialty stores, and other outlets for ready-to-wear goods and dry goods without exclusive agency contracts.[1] The L. J. Stanley Company, however, granted an exclusive agency for its garments to one department store or other ready-to-wear outlet in each locality.

The contract under which the L. J. Stanley Company granted an exclusive agency for Stancraft garments provided that the retailer should have the privilege of selling at retail all products of the company, and that the privilege was to be exclusive and not granted to any other retailer within a definitely defined territory, which in the case of Slawson & Gilbert would be the city in which the store was located. The retailer was given the privilege of subscribing to the Cooperative Dealers' Service, including advertising service, which had been established by the manufacturer, and of belonging to the organization of Stancraft Dealers. Furthermore, he was allowed to designate his store as "The Stancraft Store."

The retailer agreed to put forth his best efforts to maintain and increase the sale of the L. J. Stanley Company's products, to keep a stock of Stancraft ready-to-wear and other products sufficient to supply the local demand, and to give Stancraft products first preference in purchase, display, advertising, and sale. The retailer also agreed to send a buyer, at the direction of the L. J. Stanley Company, to a designated point at the first of each season to make initial purchases. Furthermore, he agreed to advertise Stancraft goods in at least three newspaper advertisements each week during the active selling seasons.

The L. J. Stanley Company agreed within three months after the end of each of its fiscal years to pay the retailer a por-

[1] Very frequently department stores and specialty stores in purchasing numerous types of goods, including garments, dress goods, wash goods, and others, undertake to insist, as a condition of purchase, that the same pattern or model shall not be sold by the manufacturer to any other store in the same city during the particular season.

tion of its net profits during the fiscal year determined as follows: from the gross income of the company all expenses were to be deducted, as well as the dividends on the preferred stock of the company accruing during the fiscal year, and such sum in addition thereto as in the judgment of the board of directors should be retained in the business of the company; and the residue of the income was to be divided into two equal parts, one part of which was to be paid as dividends to the holders of the common stock of the company, and from the other part of which there was to be paid to the retailer an amount in the same proportion as that borne by his net purchases of merchandise from the company during the fiscal year to the total merchandise sold by the company during that year.

The contract stated that the agreement was not transferable but could be terminated by either party on 30 days' written notice. It was also stipulated that the trade name Stancraft remain the exclusive property of the manufacturer, and that the retailer upon termination of the agreement should at once discontinue all use of that trade name. The representative of the L. J. Stanley Company, in presenting the exclusive agency contract to the general manager of Slawson & Gilbert, recommended that the firm purchase a block of the 7% cumulative preferred stock of the company, which was being offered at par value to all retailers accepting the exclusive agency franchise.

The firm of Slawson & Gilbert operated the largest department store in a western city of 25,000 population. The store, which had a sales volume of approximately $550,000 a year, secured trade not only in the city, but in the surrounding territory as well, since there was no large city situated nearby. Two other small department stores and several dry goods and specialty stores constituted the principal competition. Goods carried included women's ready-to-wear garments, dry goods, men's and boys' clothing, shoes, and other merchandise commonly found in most department stores of similar size.

In the past, Slawson & Gilbert had made purchases from manufacturers and wholesalers, principally through travelling salesmen who called at the store, but in part by means of the general manager's occasional trips to San Francisco, Kansas City, and Chicago. The executives had decided, however, that the business was of sufficient size to warrant primary market buying, and were making arrangements to utilize the services of a buying

syndicate in New York City. Although the store had never had an exclusive agency for any women's ready-to-wear merchandise, the men's furnishings department had held for three years the exclusive agency for a nationally advertised brand of men's hats and had found the agency satisfactory. When the L. J. Stanley Company made its offer to Slawson & Gilbert, no store in the city carrying women's ready-to-wear had an exclusive agency for Stancraft or for any similar semi-standardized line of women's garments.

Should Slawson & Gilbert have accepted the exclusive agency offered by the L. J. Stanley Company?

8. RANFORD COMPANY

DRUG CHAIN—COOPERATION WITH MANUFACTURERS IN SALES PROMOTION

The Ranford Company, which operated ten retail drug stores in several neighboring cities, often was asked by manufacturers to cooperate in promoting the sale of an established product or in introducing a new product. The Ranford Company could give promotional assistance through its newspaper advertising, window displays, and interior displays. During June, 1929, the company was asked to assist in promoting a new safety razor blade and a combination offer of tooth paste and a toothbrush.

The Ranford Company had a reputation among its customers for selling reliable merchandise. The largest store of the company had an annual sales volume of approximately $135,000, three other stores had sales volumes in excess of $100,000, and the remaining six had sales volumes ranging from $30,000 to $60,000. Each store was divided into five departments: the soda fountain; the cigar department; the candy department; the general merchandise department, which included patent medicines, toilet articles, and sundries; and the prescription department. For the company as a whole, the soda fountains accounted for approximately 20% of total sales, the cigar departments for 20%, the candy departments for 10%, the general merchandise departments for 40% to 45%, and the prescription departments for 5% to 10%. The company manufactured a number of patent medicines and toilet preparations for sale in its stores; the sales of these products,

however, were small in proportion to total sales. The company hoped to secure a gross margin of 35% of net sales in 1929; the gross margin in 1928 had been 33.4%.

The Ranford Company spent approximately 3.5% of net sales in advertising in the local newspapers of the cities in which the stores were located. Where there were daily newspapers, the company advertised daily, using a small space except on Fridays, when it used a much larger space, ranging from a half page to a full page. In its Friday advertising the company attempted to promote sales for the week-end by offering nationally advertised goods at lower than regular prices.

During 1928 between 15% and 20% of the company's newspaper advertising had consisted of cooperative advertising paid for by manufacturers. During the first five months of 1929, cooperative newspaper advertising had amounted to between 5% and 10% of total newspaper advertising. The Ranford Company often secured payment from manufacturers for the use of windows in its stores. The company had no established schedule of rates for window space, however. For a week's use of the main window in its largest store the company several times had received $75. Charges for window space in the smaller stores were lower. When the company sold window space, it tried to sell space in all its stores. One cigarette manufacturer regularly paid the Ranford Company a definite monthly fee in order to secure a permanent display of its brand of cigarettes on the company's cigarette counters. In some months, the general manager of the Ranford Company stated, the value of the company's purchases of this cigarette was only slightly in excess of the fee received from the manufacturer. Very few other manufacturers were willing to pay the company for the use of counter space for displays.

In June, 1929, a well-known manufacturer of tooth paste and toilet articles asked the Ranford Company to assist in promoting a combination offer of tooth paste and a toothbrush. The offer consisted of two tubes of a tooth paste which regularly was sold at 25 cents a tube, and cost the Ranford Company $2 a dozen tubes, and a toothbrush which the manufacturer stated to have a retail value of 50 cents. The combination was to cost the Ranford Company 40 cents net and was to be sold at retail for 50 cents. There was no established time limit for taking advantage of the proposal, nor was there any minimum limit on the quantity which could be bought. If the Ranford Company agreed to cooperate

in promoting the combination, the manufacturer of the tooth paste would furnish material for window and counter displays; he was unwilling, however, to pay for the use of window or counter space or for any space used in newspaper advertising.

The salesman who presented the combination offer, when reminded that the gross margin to the retailer was very small, argued that the Ranford Company would benefit in two ways: first, since the regular value of the combination was double the actual retail selling price, the Ranford Company would gain the goodwill of its customers; second, purchasers of the combination would become repeat buyers of the tooth paste, and on these purchases the company would obtain a 33⅓% mark-up.

The executives of the Ranford Company knew that the combination offer would be attractive to customers. At regular prices the company sold an average of one gross of tubes of this tooth paste each month. Furthermore, the company might use the combination as one of its specials for week-end advertising. Since the offer was not limited to the Ranford Company, however, competing stores might obtain some benefit from the Ranford Company's advertising.

At about the same time, an established manufacturer of cutlery asked the company's cooperation in promoting a safety razor blade which the manufacturer had developed for use with the most popular safety razor on the market. Since magazine advertising had not been particularly successful in gaining distribution for the blade, the manufacturer had decided to approach retail stores directly in the hope of developing satisfactory distribution. The manufacturer had devised a card to which 24 packages containing single blades were attached. The packages were to sell at 10 cents each, while the cost of each card to the Ranford Company would be $1. The manufacturer would reimburse the Ranford Company for advertising expenditures to the extent of 90 cents for each card purchased, but he did not ask for a window display. The manufacturer's salesman stated that no definite time limit on this offer had been established and that the Ranford Company could purchase any quantity of cards. While the company had not sold this blade previously, executives believed that the blade would give satisfaction to customers.

At the time when these two offers were being considered, the advertising manager questioned the extent to which it was advisable for a chain to cooperate with manufacturers in sales

promotion.[1] In his experience, he stated, the mark-up on most of the items for which manufacturers wished cooperative promotion had been less than 35%. He was of the opinion that the same advertising effort expended on the company's own products or on other products with mark-ups above 35% would result in greater net profits to the Ranford Company than were obtainable from cooperative promotion.

What action should the Ranford Company have taken in regard to the two offers made to it?

What should have been the company's general policy in regard to cooperation with manufacturers in sales promotion?

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[1] "Should the manufacturer of toilet goods employ a large number of demonstrators or special saleswomen and place them in the toilet goods departments of department stores and drug stores? Should he give special commissions to saleswomen behind the counter for selling his line? Or should the manufacturer put his investment into securing a consumer demand for his product, using only a few demonstrations and allowing no special commissions to clerks? Every year these questions are becoming more vital.

"Every year competition is becoming keener in the toilet goods business. Toilet goods buyers are being offered special sales arrangements, pin money for the clerks, etc., if they will stock items that are 'just as good' as the better known advertised lines. Some of these lines get into the stores. Some buyers stock the 'just as good' items, while other buyers go back to the manufacturers who advertise and ask for still more liberal sales arrangements.

"No sooner does one manufacturer make a more liberal arrangement with a buyer than some other manufacturer comes along with a still better proposition to make to him.

"At first the toilet goods buyer was glad to have a manufacturer place a demonstrator in his store for a few weeks each year. Later the demonstrator became a permanent one. Her salary was paid entirely by the manufacturer though she was required to sell a great many articles besides those of the manufacturer she represented. (In some stores the demonstrator is obliged to take stock, help in other departments of the store, etc. One manufacturer recently said that on a rainy day he found his demonstrator working in the umbrella department.) This practice has grown so that today in one of the largest toilet goods departments in the country the salaries of over thirty girls in the department are paid by individual manufacturers. And in addition rental for the counter space is charged.

"A practice known as the P. M. system is being used increasingly by some manufacturers. They pay the saleswomen in the toilet goods department a special premium for selling their line. In some cases this amounts to two cents on a twenty-five cent article and five cents on a fifty cent article. Sometimes the manufacturer makes the arrangement with the manager of the store or department, and the commission is divided between the manager and the saleswomen. This method is legal. But in other cases the commission is paid direct to the saleswomen without the knowledge of the manager, which is, of course, illegal . . . "—Resor, William, "How Important Are 'Store Demonstrations' and 'Special Commissions to Clerks'?" *J. Walter Thompson News Bulletin*, March, 1923, page 15.

9. NU-WAY STORES COMPANY

GROCERY CHAIN—INTRODUCTION OF A NEW PRODUCT

During the latter part of 1928 the Nu-Way Stores Company was solicited by the Alva Manufacturing Company to purchase a new prepared pancake flour, called Jax, which the Alva Manufacturing Company was beginning to market. The Nu-Way Stores Company operated a chain of approximately 500 retail grocery stores within a radius of 20 miles of a large middle-western city; the area covered by the company's stores had a population of approximately 2,000,000 people; the stores sold staple groceries, milk, bread, and a few vegetables and fruits. The company had had sales of $13,000,000 in 1927.

Within the territory covered by the Nu-Way Stores Company there were several other grocery chains, the largest of which were the Middle West Stores Company, operating 1,500 stores, and the Jason Company, with 2,000 stores. In order to meet the advertising efforts of these two companies, the Nu-Way Stores Company did extensive publicity work; Mr. Clark estimated that his company's newspaper advertising expense per store was from 3 to 4 times that of either the Middle West Stores Company or the Jason Company. During 1927 the Nu-Way Stores Company had expended approximately $100,000 for newspaper space.

The Alva Manufacturing Company, at the time of its approach to the Nu-Way Stores Company, had had little experience in the marketing of Jax, inasmuch as it had restricted its previous attempts to secure distribution to one locality, a large eastern city. In this city some unit grocery stores and a few grocery chains were handling Jax, primarily because of its low selling price and high gross margin. No policy of advertising had been developed for this locality. Since the Alva Manufacturing Company was a new concern with limited financial resources, it had not engaged in extensive advertising of the few other products which it manufactured.

The Alva Manufacturing Company offered the Nu-Way Stores Company no special inducements, such as quantity discounts, free deals, or advertising allowances, for stocking Jax. The company's salesman was certain that the quality and price of Jax would lead customers to buy and that the margin of profit was sufficiently high to induce retail stores to push the product. He thought that

the company might do some newspaper and billboard advertising in the future, but could give no definite information as to what this advertising would be. Under these conditions the Nu-Way Stores Company was averse to handling Jax, but the management considered the desirability of making a counter-proposal to the Alva Manufacturing Company.

While Mr. Clark believed that chain stores as a rule did not introduce new products except under their own brands, he was interested in an experiment carried on by an eastern grocery chain. According to a published report,[1] this grocery chain had undertaken to establish distribution for an entirely new product; within a period of three months, by the use of its regular circulars and newspaper advertisements, it had sold over 3,000 dozen bottles of the product. Except for a week when 600 dozen bottles had been sold at 2 for 25 cents, this new product had been sold at the manufacturer's suggested retail price of 15 cents a bottle. Mr. Clark realized that the problem of a grocery chain in building distribution for a new product was novel. If the Nu-Way Stores Company undertook to introduce Jax, the attempt, whether it was successful or not, would give the company some experience upon which to formulate a policy for the promotion of new products.

Jax would meet its greatest competition from a well-established, nationally advertised brand called Wonder Flour, which the Nu-Way Stores Company and the other grocery chains in the territory were handling, and which was the only prepared pancake flour stocked by the Nu-Way Stores Company. Tests showed that Jax equaled in quality any pancake flour on the market. Jax was put up in an attractive package of the same size as the Wonder Flour package. It probably could be sold at 11 cents a package; the billed cost for a case of one dozen packages was 95 cents, less a 2% discount for payment within 10 days The retail price of Wonder flour was usually 12½ cents a package, and its cost for a dozen packages was $1.20, less a 2% discount for payment within 10 days. The usual gross margin on sales of the Nu-Way Stores Company was approximately 22%. The initial order of Jax by the Nu-Way Stores Company probably would be only 500 cases, 1 case per store.

In order to secure consumer recognition for Jax, the Nu-Way Stores Company would need to use all the promotional methods

[1] Rabinovitz, Sidney, "A Chain Store Builds Distribution for a New Product," *Printers' Ink*, November 1, 1928.

which it had developed. Briefly the company's sales promotional activities were as follows:

Advertising plans were formulated in advance for weekly periods so that all efforts were correlated. A standardized main window display was set up in the home office, and a photograph of this display transmitted to each store manager on a weekly display sheet, which also contained specific instructions for the arrangement of the secondary windows, counter, floor, and outside displays. Window signs and counter cards were sent to the stores; and approximately 300,000 circulars, which cost $2 a thousand, were distributed weekly from house to house or used as inserts in bundles. In addition to these activities, newspaper advertisements varying from one column to full-page size were employed twice weekly. In a direct attempt to arouse the store managers to greater efforts, special bulletins were issued from headquarters describing the importance of having the advertised products in stock and stressing the items being promoted. Superintendents made a rigid check of displays and stocks.

The Nu-Way Stores Company's executives regularly instructed store managers and salesmen to be extremely careful about suggesting products to customers. Because a customer often resented the attempted substitution of another brand for the one she had asked for, no store manager was allowed to influence a customer's decision unless the customer had shown her confidence in the store by repeated visits. Partly for this reason the Nu-Way Stores Company had not attempted to establish its own brand, "Nu-Way," extensively. Of the 1,100 items stocked by the company, only 70 were of the Nu-Way brand.

In contemplating a proposal to the Alva Manufacturing Company, the Nu-Way Stores Company reasoned that in order to induce unit grocery stores and grocery chains to stock Jax, the company ordinarily would have to undertake intensive advertising of some sort. Since its limited finances would prevent a nation-wide marketing campaign, the company would have to restrict its activities to selected sections of the country. Mr. Clark believed that an effective newspaper and outdoor advertising campaign for Jax in the territory covered by the Nu-Way Stores Company would have to last a year and would cost approximately $25,000. In view of these considerations, the Nu-Way Stores Company drew up the following plan for submittal to the Alva Manufacturing Company:

The Nu-Way Stores Company would advertise Jax in its newspaper space, basing the monthly charge directly on the space used. The national rate for newspaper advertising was to be the basis of this monthly charge, even though the Nu-Way Stores Company usually paid the local rate, which was 30% to 35% lower than the national rate. To secure an adequate return, it was estimated that about $300 per month would be required for newspaper advertising. In addition the Nu-Way Stores Company proposed to join this newspaper publicity with the company's other promotional efforts. For a payment of $1 a month per store the Nu-Way Stores Company would give to Jax a large enough space in its weekly circulars to allow the use of an illustration and some description, and a place in its window and counter displays; and periodically the company would make Jax the subject of a bulletin to store managers. The charge of $1 a month per store was arrived at arbitrarily, because Mr. Clark did not know any way of measuring the total cost of this service to the Nu-Way Stores Company. Finally, while the Nu-Way Stores Company would not seek to have initial distribution of the new product limited to its own stores, it would request that the Alva Manufacturing Company refrain from advertising in the territory for six months and from entering into similar special agreements with other local grocery chains. If accepted, the agreement was to continue for one year.

10. J. R. CASTLEMAN

UNIT DRUG STORE—COOPERATIVE BUYING

In January, 1924, Mr. J. R. Castleman purchased a unit drug store in a town with a population of 7,500, situated 19 miles from a large city. The annual sales of this store in 1923 had been approximately $63,000, divided as follows: $30,000 in drugs and chemicals, proprietaries, toilet articles, and sundries; $15,000 in cigars, cigarettes, and tobacco; and $18,000 in candy, soda, and ice cream. Approximately 3,000 items were carried in stock. For 1923 the gross margin had been 32% of net sales, and total expense, not including interest, had been about 25%. The rate of stock-turn had been 5 times for the year. In the latter part of

1924, Mr. Castleman considered purchasing shares in the United Mutual Company, a cooperative buying association.

The United Mutual Company had been organized in 1914 by 12 retail druggists; by 1924 the number of members had increased to 125. The company was incorporated, and a board of directors consisting of five members was responsible for the management. The United Mutual Company had office room and storage space in the nearby large city. It employed no salesmen.

In 1924 the paid-in capital of this cooperative buying organization amounted to $62,000. In addition, about $15,000 of operating capital was obtained from banks on one-year notes secured by merchandise collateral. Occasionally, when additional funds were needed, some of the members endorsed notes. Each member was required to own stock in an amount at least equal to the total of his weekly purchases. Each new member was required to buy at least five shares of stock. The par value of the shares was $50 each; the price in 1924 was $60 a share. If a member desired to withdraw from the United Mutual Company, he received a refund when he surrendered his shares. Since the organization of the company, there had been only ten withdrawals.

The United Mutual Company carried in stock approximately 2,000 items, including proprietaries, soda-fountain supplies, and sundries. It did not carry drugs, chemicals, tobacco, or candy. The United Mutual Company never had paid dividends on its stock, but had given its members the immediate benefit of lower prices on their purchases.

Members of the United Mutual Company ordered goods by letter or by telephone. No delivery service was provided. Invoices had to be settled weekly. On this basis the company gave its members a discount of 10% from the wholesale list prices, that is, prices at which wholesalers sold to retailers. This discount was offered regardless of the quantities purchased. In order to meet this competition, some wholesale druggists offered a 10% discount in addition to their regular terms of 1% 30 days, net 60 days. This special 10% discount, however, applied only to orders of at least one dozen units, and was restricted to certain fast-moving proprietaries and toilet articles. The goods on which wholesalers gave this additional 10% discount comprised only about one-tenth of the items carried by the United Mutual Company, but they made up over 40% of the sales of proprietaries and toilet articles in the Castleman store. One wholesale druggist in the nearby city offered free delivery service.

The discounts commonly received by the United Mutual Company from manufacturers were 15% and 2% off the wholesale list prices. The operating expenses of the United Mutual Company in 1923 were slightly less than 7% of its net sales of $550,000; the rate of stock-turn for that year was 10 times. Some manufacturers had refused to sell to the United Mutual Company because of the remonstrances of wholesale druggists. Other manufacturers were unwilling to give their full wholesale discounts to such organizations as the United Mutual Company.

In the case of one nationally advertised product selling in the Castleman store at the rate of 4 dozen bottles a month, the regular wholesale list price was $7.56 per dozen. On orders of a dozen bottles or more, wholesale druggists granted a discount of 10% in addition to their regular terms of 1% 30 days, net 60 days. On this product the United Mutual Company gave its regular discount of 10%, on the basis of weekly settlement of invoices. This product also could be purchased by retailers directly from the manufacturer at a discount of 15% from the wholesale list price, less 2% for cash by the tenth of the following month, provided orders were placed for quantities of 12 dozen or more at a time. The usual retail price of this product was 70 cents a bottle.

Mr. Castleman estimated that if he joined the United Mutual Company his total purchases through that organization probably would amount to $100 per week.

11. RANDELL & COMPANY

DEPARTMENT STORE—USE OF RESIDENT BUYER[1]

Randell & Company operated a department store located about 200 miles from New York City. In 1925 its sales volume was approximately $1,500,000, mostly in popular-price merchandise. Up to May, 1926, Randell & Company had utilized the services of a resident buying firm in New York City which cooperated with the store's own department buyers. With the rapid increase in volume of sales, however, the management of Randell & Company considered the possibility of establishing its own New York buying office.

[1] For a directory of resident buyers in New York City and the stores for which they buy, see *Phelon's New York Resident Buyers*, published annually by J. S. Phelon & Company, New York.

The Alliance Company was one of the leading resident buying firms in New York City. It had over 60 accounts with stores ranging in size from small-town specialty shops to department stores with yearly sales volume of $8,000,000 to $10,000,000. As was customary, Randell & Company paid a straight annual fee, which in 1925 was $4,250, for the services of the Alliance Company. The fees charged by resident buyers varied somewhat in accordance with the annual sales of their clients, though not usually in direct proportion. A commission basis of payment for resident buyers was considered not conducive to satisfactory relations between store and buyer and was therefore seldom used.

The chief value of a resident buyer's services to Randell & Company consisted in the advice and assistance rendered to the store's buyers while they were in New York. Buyers for practically all departments except furniture and groceries went to New York at intervals of from one week to eight weeks. The buyer of women's ready-to-wear apparel, for instance, went to New York nearly every week during the fall and spring seasons; there she shopped with the buyer of the Alliance Company who specialized in women's ready-to-wear garments. The Alliance Company had ten buyers, each of whom specialized in one or two lines.

The store buyers purchased about 15% of the annual requirements of Randell & Company in cooperation with the Alliance Company; only 5% was bought by the Alliance Company independently. If merchandise purchased independently by the Alliance Company did not meet the specifications, which was seldom the case, the goods were returned or an adjustment made otherwise. Occasionally the resident buyer sent Randell & Company unsolicited merchandise; such goods, however, could be returned freely if the store did not wish to stock them. Usually the management of Randell & Company thought it worth while to spend $40, which was the average expense of sending a department buyer to New York for two days, in order to insure, so far as possible, the purchase of merchandise suitable to the needs of its customers. The management reasoned that, the more responsibility a department buyer had for the purchase of merchandise, the more responsibility he assumed for its sale.

The Alliance Company rendered service in following up orders, and it furnished an office, telephone, stationery, and similar facilities for the store buyers while they were in New York. Because it had a large number of accounts, the Alliance Company frequently could obtain lower prices than could the store buyers. This resident buying firm did not buy cooperatively for its clients, however, unless two or more of them ordered the same merchandise at the same time. The Alliance Company also served as a medium for the exchange of information among its clients as to their experience with sources, merchandise, and prices.

On the other hand, the buyers of the Alliance Company were not always available for conference and shopping when wanted. Also, they were responsible to the Alliance Company alone; if one of them made a poor purchase, Randell & Company had no recourse. In the average resident buying firm, furthermore, some favoritism and prejudice, both in regard to clients and in regard to sources of purchase, were almost inevitable. Although a resident buyer was naturally desirous of pleasing his clients, he had no interest in their profits and consequently could not be expected to serve a store so energetically and carefully as its own buyers.[1]

A small store could not afford to maintain its own New York buying office, but Randell & Company had developed its sales volume to a point where consideration of such a project was possible. It was estimated that the cost of maintaining an office with one competent buyer in New York City would be from $7,000 to $10,000 yearly.

Should Randell & Company have continued to use the services of the Alliance Company as a resident buyer in New York City?

12. HATCH COMPANY

DEPARTMENT STORE—GROUP BUYING[2]

The Hatch Company, a department store, was a member of the Rand Association, a corporation which had been formed for the

[1] A number of resident buying firms were tending to add definite merchandising and sales promotion functions to the services which they offered; in a few instances these tendencies had led towards the operation of chains of leased sections.

[2] The following articles appeared in *Women's Wear Daily*, early in March, 1926:

Philadelphia, March 1.—Manufacturers of coats and suits in this market show little sympathy toward the group-buying movement, which has been the subject of much discussion of late in the New York market, according to opinions expressed, the majority stating that in its belief the best action that could be taken would be the abolition of the group-buying practice entirely.

Group buying, they say, breeds cutthroat competition, which is the death of any industry. Furthermore, it is contended, the practice leads to favoritism so that only certain manufacturers profit by such a movement and the remainder are left "out in the cold," as it were.

Virtually, group buying resolves itself into an embarrassing situation as far as the producers are concerned, according to the statements made, in that they are in effect only subcontractors for the retailers and buyers. Through pursuance of this policy, the buyers try to tell the manufacturers what they should make and for how much their garments should sell, it is claimed.

This condition, they assert, tends to suppress the individual efforts of the different manufacturers which are, to all intents and purposes, the driving force of the women's wear industry today. For this reason, the life of the industry is threatened by the group-buying movement, they contend, since few manufacturers are willing to exert their full effort toward the ultimate accomplishment of a certain end without being reasonably sure that their effort will be appreciated and due compensation will be forthcoming.

From the standpoint of style, group buying is just as objectionable, they say, in view of the fact that individuality and exclusiveness are not to be purchased in volume.

Another point which was stressed was that of quantity production. From some sources it was stated that the industry is overproduced even now, and that the group-buying policy creates further incentive for increasing production in an effort to meet competitive prices. To attain this end, garments have to be made more simply and, as a result, they become so easy to make up that they can be turned out by the thousands. It is likely, then, that a large quantity of these goods must later be offered at a sacrifice if they are to be sold at all, it was claimed.

The effect of this practice of group buying, however, will revert upon those who persist in following the policy, according to manufacturers in this market, in that if the industry suffers and is forced to go along in a piecemeal . . . manner, this condition will eventually have its influence upon retailers as well.

New York, March 3.—Approval of the latest development in the group-buying situation—namely, the plan for selecting merchandise just adopted by Felix Lilienthal & Company—was expressed by many factors active in the dress industry.

According to this plan, a committee of buyers will be appointed for the purpose of visiting the showrooms of the manufacturers, inspecting the entire line on the premises, and placing group orders there. This differs from the general practice under which a few models are selected from the wholesaler's line by a minor representative of the group-buying organization, sent to the latter's office, and then possibly shown along with many other models in a buyers' fashion show.

In some quarters this idea, which is still regarded as being in an experimental stage, is considered a victory for those who have organized to combat the methods now prevalent in group buying. It met with the approval of David N. Mosessohn, executive chairman of the Associated Dress Industries of America, who is heading the movement to abolish these methods.

"We are fighting against certain injurious methods that have been employed in the carrying on of group buying," said Mr. Mosessohn, "and which have become a cancer to the dress industry. This system of Felix Lilienthal & Company is the first step in the elimination of the cancer."

Mr. Mosessohn complimented Mr. Lilienthal for being so far-seeing as to realize that this step is necessary for the good of the industry and of the buying offices. He praised Mr. Lilienthal's ability to understand the advantages that this new system brings to the retailers in that it enables them to see the entire line offered

purpose of buying dresses for a group of 25 stores located in different cities throughout the United States. These dresses were sold in the stores at $40 each. The managements of some of the stores in the association wished to increase the scope of coopera-

tive purchases to include dresses to retail at $62 and popular-price millinery. In this connection, the association requested the Hatch Company to cast separate votes as to whether these types of merchandise should be added to the Rand Association line.

The Hatch Company was located in an eastern city with a population of about 150,000 and sold merchandise of a better grade than that offered by any other department store in the city. The store's annual sales amounted to about $4,125,000; of these 65% were made on credit, 34% were made for cash, and 1% C. O. D. The average annual gross margin was about 32% of net sales, and the total expenses were approximately 29% of net sales.

The department stores had formed the Rand Association in order to obtain the services of skilled buyers, to secure price concessions from manufacturers, and to enjoy any prestige accruing from the national advertising of the association. The association began by purchasing dresses for sale in the member stores under the trade name of Rosetta Rand. Dresses under this trade name were advertised in a women's fashion magazine of national circulation.

The stores which were members of the association were of two classes, A and B. Each of the Class A stores, when admitted to the association, purchased one share of stock for $1,000. The 15 directors of the association were elected by these members from

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by a manufacturer, instead of confining observation to the former haphazard method of fashion shows in the group-buying offices.

"The first object of the campaign to rid the dress industry of certain injurious methods prevalent in group-buying circles is to bring the group buyers to the manufacturers' showrooms," concluded Mr. Mosessohn, "and the beginning of the completion of this object has been accomplished through this revised method of this office."

In approving this step as an improvement of the situation, Sam Richman, of Claridge Frocks, said that it will tend to develop originality and personality on the part of the manufacturers, two traits that, it is said, were seriously hampered and often destroyed by the group-buying methods generally employed. It also prevents a wholesaler's merchandise from becoming "lost in the crowd," as was so apt to happen under the group-buying "fashion showings," he declared.

Another manufacturer pointed out that an advantage of this plan will be that the wholesaler will not run the risk of having an original model copied, as often happened, he said, when sent to the office of a group-buying organization preparatory to a showing.

Some, however, doubted that any real good would come from this innovation. They believed that, at best, the system was only a makeshift, and would . . . fail to develop into a permanent institution.

It was also explained that one of the main evils that has arisen from the group-buying methods will not be eradicated by this plan. It will not prevent price-cutting, it was thought, as group-buying organizations will be able to dictate terms as easily and as forcibly under this arrangement as previously.

among their official representatives, each store casting one vote. All policies of the association were decided by the 15 directors elected by the voting stores. Class A members also had the right to have the names of their stores published in connection with all the advertising done by the association, in addition to the privilege of buying through the association. The Class B stores did not own stock in the association and, therefore, did not have the right to vote. Stores of this class had the privilege of buying through the association, but their names did not appear in connection with its national advertising. They were required to deposit $500 with the association when they were admitted to membership. A store in either class could withdraw from the association at any time upon giving 30 days notice. Upon withdrawal, the original stock subscription or deposit was recoverable. The home office of the Rand Association was in New York City, which was the central market for women's style clothing in the United States.

In May, 1925, dresses to be sold under the Rosetta Rand brand were selected in general as follows:

Each month the management of the Rand Association canvassed the market for dresses and tentatively selected from 100 to 150. Ordinarily, the dresses selected had been offered as part of a manufacturer's line to retail at from $45 to $50 apiece, or, if newly made, were to have been added to the manufacturer's line to retail at that price. On the second Thursday of every month, the buyers of the dress departments and some of the merchandise managers from the member stores met in the New York office of the association and reviewed the selections as exhibited by models hired for the occasion. When the dresses were displayed, they were designated only by numbers, so that no one except the association buyer who had selected them in the first place knew what companies had manufactured them. The representatives from the stores cast votes for all dresses which appeared to them to merit further consideration.

This preliminary inspection usually lasted until 1 or 2 o'clock. A recess then was called for about an hour. During this time, a committee of buyers, called the fashion committee, counted the votes for each dress. Unless a dress received votes from 75% of the buyers and merchandise managers present at the exhibition, it was not considered further. After the votes were counted, the fashion committee again inspected the dresses which

had received the necessary number of votes and selected the three which it thought would be the best-selling numbers and which it considered would appear to the best advantage in the national advertising of the association. These three dresses were called "the feature numbers." Each member of the association was required to buy at least six of each feature number, but was permitted to select the sizes desired. The other dresses which obtained the required number of votes were called "selected numbers." The association made no stipulation as to the number of these dresses which buyers were to purchase.

Orders were written out by the various buyers on Rand Association order blanks and were left at the central office. Likewise, all reorders were placed with the central office and not directly with the manufacturers.

Each member store agreed to keep the Rosetta Rand dresses on sale in its dress department at the regular price of $40 each for at least one month after receiving them. Then, if the store management wished to do so, it could mark the dresses down after removing the Rosetta Rand label.

Each member store paid the Rand Association a small percentage of the value of its purchases through the association. This percentage was graduated according to the total purchases of the association in a year. That is, since the ratio of the overhead expenses of the association to its purchases became smaller as the purchases increased, the larger the total purchases were the smaller was the percentage charged to the stores. Each member store also paid a small percentage of the cost of the national advertising. This cost was prorated to the stores in proportion to the amount of their purchases through the association. During the latter months of 1924 and the first part of 1925, these combined percentages for the Hatch Company amounted to about 4.5% of the total net sales of its purchases through the association.

Under this method of buying, the sources for dresses were canvassed continually by skilled buyers who did not have to divide their attention between the work of selecting merchandise and the actual details of department-store operation, as did most buyers for department stores. The buyers for the dress departments of the member stores also kept in contact with the dress market through the purchases which they made outside the association; thus the likelihood was reduced that any desirable lines of merchandise would be overlooked.

The method used in selecting the dresses to be featured was based on the theory that the consensus of opinion of a group of individuals usually was a safer guide than were the independent opinions of most of the members of the group. The system used by the association was designed to protect the stores against the mistakes of individual buyers. It was useful in preventing the selection of mediocre and poor merchandise rather than in insuring the selection of only the best merchandise. Because of the large volume of orders which it received for a single style number, the association commonly secured price concessions sufficient to enable member stores to sell for $40 dresses which ordinarily would sell at from $45 to $50.

Rosetta Rand dresses at $40 were not intended to be the most exclusive styles in dresses. They were what the treasurer of the Hatch Company called "sublimated mediocrity," representing the upper strata of the popular-price classification.

The buyer and assistant buyers for the dress department of the Hatch Company complained that the sale of Rosetta Rand dresses at $40 decreased substantially the department's sales of dresses priced at from $45 to $50. They also contended that the policy of purchasing through the Rand Association did not allow them sufficient opportunity to use their judgment for the good of the department. Up to the time when the store was asked to cast its vote on a further expansion of the activities of the Rand Association, the management of the Hatch Company had not been able to obtain the whole-hearted cooperation of the dress department buyer and his assistants in the group-purchasing plan.

The average initial mark-up in the dress department of the Hatch Company during the spring season of 1925 up to May 1 on dresses other than the Rosetta Rand brand was about 40% of original retail, with a maintained mark-up of about 35% of net sales. The total expenses of the dress department were about 29% of net sales. The initial mark-up obtained on Rosetta Rand dresses was 34.3% of original retail. The mark-downs on Rosetta Rand dresses for both the fall season of 1924 and the spring season of 1925 up to May 1 had been less than 1% of net sales. The experience of the Hatch Company in its purchases and sales of Rosetta Rand dresses for part of the fall season of 1924 and for the spring season of 1925 up to May 1 had been as summarized in Exhibit 1.

EXHIBIT 1

HATCH COMPANY

Stocks, Receipts, Sales, and Mark-downs of Rosetta Rand Dresses
September, 1924, to May, 1925

	Dresses on Hand (in Pieces)	Dresses Received (in Pieces)	Dresses Sold (in Pieces)	Mark-downs (in Dollars)
1924				
September	...	38	5	.....
October	33	200	105	.....
November	128	120	106	.....
December	142	103	117	$ 8.00
1925				
January	128	111	150	113.25
February	89	110	59	.....
March	140	133	96	.....
April	177	146	87	169.50
May 1	236			

Several members of the board of directors of the Rand Association had recommended during April, 1925, that the association widen the scope of its buying activities to include a line of millinery to be sold at a price between $11 and $13.50 and a line of dresses to be sold at a price of $62. All such merchandise purchased through the association was to be given the Rosetta Rand brand and was to be included in the national advertising of the association.

The annual net sales of the millinery department of the Hatch Company amounted to about $172,000, and those of the dress department to about $365,000.

How should the management have voted on these questions?

13. WENSLEY COMPANY

DEPARTMENT STORE—GROUP BUYING

Early in the summer of 1929 the Ellery Association, the department store group of which the Wensley Company was a member, discussed the advisability of extending the scope of its group buying to include coats to retail at $100 each. The Wensley Company was uncertain whether it should support this extension of group buying activities.

The Wensley Company, a department store with annual sales of nearly $20,000,000, was located in the shopping district of a large eastern city. The operating expenses of the Wensley Company for the year 1928 had amounted to approximately 29% of net sales, while the gross margin, exclusive of cash discounts, had been 30% of net sales.

The Ellery Association comprised department stores located in all parts of the country. A wide variety of items was included in the lines purchased by the stores as a group. One of these, a line of $40 dresses, had been nationally advertised under the brand name Dorothy-Anne. For the selection of the dresses to be sold under the Dorothy-Anne brand, the buyers for the high-grade dress departments of the stores met every month to view the association's displays of new models. Frequently as many as 30 manufacturers, each showing an average of 10 models of dresses, took part in a display. After inspecting the models, the buyers voted for those which they thought should be purchased by the group. Fourteen women's dresses and ten misses' dresses were chosen each month. The dresses displayed were of a quality normally offered to department stores at prices ranging from $27 to $29; but, because of the large number of dresses ordered by the group, the manufacturers commonly granted a special price of $26.50, subject to the usual cash discount of 8%, allowing the stores in the group to retail the dresses at $40.

Delivery of merchandise purchased by the group was not infrequently delayed. Since a manufacturer could not be sure of obtaining orders from the group when he displayed samples, he often did not buy the material from which to make the dresses until he had received an order. In the case of high-price dresses of the latest fashion, early delivery was an important factor; a delay of even a week was likely to have an unfavorable effect on sales. It was possible, however, for individual buyers to find out what lines were ready for delivery and to place their orders accordingly. Hence most of the high-price dresses were purchased individually by the stores in the group, and most of the group buying of dresses was confined to medium-price merchandise. Experience had shown that the Dorothy-Anne dresses, retailing at $40, were of about the highest grade that could be bought successfully through the association. At one time the group had tried buying more expensive dresses and had imported some models, but the experiment had been a failure.

The Wensley Company's sales of dresses at $40 and over amounted to approximately $300,000 a year. Annual sales of Dorothy-Anne dresses were in the vicinity of $50,000. While the mark-up for the high-grade dress department as a whole averaged about 38% of retail, only 34% was obtained on Dorothy-Anne dresses. In 1928 the gross margin of the department had been 28%, exclusive of cash discounts, and the total expense 31%

EXHIBIT 1

WENSLEY COMPANY

Sales of Coats, in Units by Price Lines, Spring and Fall Seasons, 1927 and 1928

	1927		1928	
Price Line	Spring Season	Fall Season	Spring Season	Fall Season
$ 6.95	.....	.....	.....	5
7.85	14	.....	31	...
9.75	19	2	70	...
10.75	11	1	223	30
11.75	13	6	34	4
13.50	19	5	4	...
15.00	625	34	555	55
16.50	295	27	402	39
18.50	143	39	287	52
19.75	111	5	111	20
22.50	7	66	318	17
25.00	1,323	341	727	435
30.00	342	313	446	309
35.00	1,173	501	1,399	590
40.00	910	820	806	561
45.00	736	428	523	222
50.00	68	638	163	818
55.00	730	485	581	445
60.00	149	16	84	128
65.00	403	369	302	400
70.00	.....	4	51	11
75.00	179	476	132	233
80.00	72	360	56	662
85.00	3	105	19	78
90.00	46	211	11	36
100.00	37	391	42	319
115.00	9	25	11	94
125.00	14	323	10	231
145.00	1	141	4	115
175.00	1	41	1	61
195.00	.....	6	.....	6
225.00	.....	3	.....	2
250.00	.....	1	.....	2
275.00	.....	1	.....	...
Total.....	7,453	6,184	7,403	5,980

of net sales. The percentage of mark-downs and the rate of turnover for Dorothy-Anne dresses had been approximately the same as for other dresses selling at $40.

The coat department which corresponded to the dress department in which Dorothy-Anne dresses were sold carried winter coats to sell at prices ranging from $75 to $185, and summer coats at prices ranging from $35 to $100. Sales of coats in units by price lines for the fall and spring seasons of 1927 and 1928 had been as shown in Exhibit 1. The merchandise manager of the Wensley Company estimated that a woman who was accustomed to buying $40 dresses would pay about $125 for a winter coat and about $65 for a summer coat. The merchandise managers of the other stores, however, thought that a winter coat to sell at $100 would be better for the group as a whole. Winter coats were more expensive than summer coats, since they were of heavier material, had heavier linings, and usually required fur collars. This fact raised the additional question whether the group should buy $100 coats throughout the year, or whether it should buy summer coats to retail at approximately $65.

The new line of coats would differ from the other lines of coats carried by the store only in that it would be selected by a group of buyers rather than by a single buyer. The coats, like the Dorothy-Anne dresses, would be featured as outstanding values and would carry a mark-up of only 34% of retail. The total expenses of the coat department of the Wensley Company in 1928 had been 29%, and the gross margin, exclusive of cash discounts, 32% of net sales. The original mark-up had averaged 38% of retail. If the Ellery Association voted to extend its buying activities to include these coats, it would be necessary for the Wensley Company to purchase at least six of each of the models selected. Presumably the group would choose eight models for women and six for misses each month.

14. ROCKBURN COMPANY

DEPARTMENTIZED SPECIALTY STORE—GROUP BUYING

The Rockburn Company was a member of a group buying association comprising 22 department and specialty stores located in different cities. One of the essential features of the model stock

plan which the Rockburn Company used was a BB or "best buy." By best buy was meant merchandise which was of greater intrinsic value than any similar merchandise which could be purchased at a comparable price at any other store in the city. Because of competition, it was difficult for a store to establish and maintain a BB; the Rockburn Company, however, wished especially to obtain such an article for its women's silk hosiery department for the fall selling season of 1925.

The Rockburn Company sold the better grades of popular-price merchandise. Net sales were about $15,000,000 a year. Of these sales, 57% were cash, 39% charge, and 4% C. O. D.

The women's silk hosiery department, with annual net sales of $350,000, was located on the street floor between two of the four largest entrances to the store. Sales in this department were made chiefly in five price lines: $1, $1.50, $1.75, $2, and $2.25. Some hosiery was sold at higher prices, but full assortments of these lines were not carried. A full assortment consisted of 5 sizes and about 25 colors and shades.

The average original mark-up in the department was approximately 32% of retail. The average gross margin, exclusive of cash discounts, obtained in the department during the year 1924 had been 25% of net sales, with total expenses of 26% of net sales. The store followed the practice of loading its discounts to 9% of cost.

It was the opinion of the divisional merchandise manager for hosiery and several other first floor departments that the plan of offering best buys presented several difficulties. When one store established a BB, its competitors soon learned this fact and sought to duplicate the merchandise at the same price. If they succeeded, the merchandise ceased to be the best buy in the city, and a new BB for that line of merchandise had to be found. Such changes caused a frequent shifting of BB's in a department, with the result that some stock was left over from each BB when a change was made. Since the margin of profit on a BB usually was limited, this gradual accumulation tended to decrease the profitableness of the department.

It usually was only when a buyer or a divisional merchandise manager worked closely with a manufacturer that he discovered a unique article or an article which could be sold in sufficient volume to enable him to obtain a price especially attractive to the customers of the store. It was necessary that the store have the good-

will and complete cooperation of the manufacturer in order to make the BB successful and to maintain any advantages gained.

Nevertheless, the buyer for the silk hosiery department and the divisional merchandise manager decided to attempt to establish a BB in one full line of hosiery to sell for $2 a pair. The hose sold at $2 in the department at that time were full-fashioned pure dye lisle top and foot silk stockings in the usual range of sizes and colors. The customers of the Rockburn Company frequently complained that the feet of stockings wore out more quickly than the other parts. If a special processing for the feet of these stockings could be developed to improve the wearing qualities, the divisional merchandise manager believed the store could sell 6,000 dozen pairs a year, provided the price could be kept at $2.

After some study in cooperation with a hosiery manufacturer, the divisional merchandise manager learned that the desired improvement in wearing qualities could be obtained by certain changes in construction, which, for the normal quantity purchased, would make the cost of hosiery to the store $1 a dozen more than the usual price of hosiery to retail at $2, at that time $16 a dozen at the mill. Seventy-five per cent of the increase would be due to the actual increase in cost of the materials and of the process to the manufacturer, and the remaining 25% would be remuneration for changing the machines and making new production schedules, and for the risks taken in experimenting with a new line. If this type of hosiery were sold at $2 a pair, the store would obtain little net profit; but the next full-line price of $2.25 would be too high. The store did not wish to establish an intermediate price line.

It would be necessary for this mill or any other mill undertaking the work to operate at least one set of machines for the special type hosiery. A set of machines in a hosiery mill consisted of three leggers and one footer; one set of machines produced approximately 1,000 dozen pairs of stockings a month. Hence the divisional merchandise manager considered suggesting to the other stores in the group buying association that they participate in the purchase of this line of hosiery. If a sufficient volume of orders was obtained, the Rockburn Company might be able to secure a lower price per dozen from the manufacturer. The divisional merchandise manager estimated that at the most only three stores in the association could buy as much hosiery of

this type and price as could the Rockburn Company, but that several of the other stores in the group might take smaller amounts. He thought that it might be possible for the entire group to absorb the total output of 4 sets of machines, or 48,000 dozen pairs of stockings annually.

Should the management of the Rockburn Company have undertaken to persuade the other stores in the association to join in the group purchase of hosiery in order to obtain a best buy?

15. CLACTON COMPANY

DEPARTMENT STORE CHAIN—CENTRAL BUYING

The Clacton Company owned and operated three department stores selling medium-price merchandise in three large cities. The company had annual sales in 1928 of approximately $30,000,000. Executives believed that the customers of all three stores belonged broadly to the same social groups. In 1927 the company had adopted a plan of group buying for many of the lines carried. In the latter part of 1928 the executives considered experimenting with central buying for the men's shoe departments. Total sales in 1928 for these departments were about $375,000.

When the company had undertaken group buying in 1927, it had engaged a manager for the buying office which it had established in New York City. The manager had been made responsible for developing in the New York buying office a staff to take care of the special orders from the stores, to give information regarding the best sources of purchase to store buyers when they were in New York, and to take charge of the group buying activities as they developed.

In January, 1929, the organization of the New York buying office paralleled the merchandising organizations in the stores. The manager of the New York buying office held a position roughly comparable to that of the general merchandise manager in each store. He was responsible, however, to a merchandise committee which consisted of the general merchandise managers. There were eight divisional merchandise managers in each store and similarly eight divisional managers in the New York buying office. Staff representatives in the New York buying office were equal in rank to the department buyers in the stores.

The development of group buying in the Clacton Company had been gradual, but by January, 1929, almost all the departments purchased some part of their regular merchandise requirements in this way. Also, practically all requirements for promotional merchandise were obtained through the group buying activities.

Group buying operated as follows: The buyers and the divisional merchandise managers in each store submitted to their general merchandise manager lists of the items which they believed should be specially promoted or should be purchased by group action. The general merchandise managers decided at their meetings what items should be purchased by group action of the buyers, when the group meetings should be held, and when special promotion should take place. The items selected by the general merchandise managers were reported to the divisional merchandise managers in the New York buying office. The staff representatives then secured samples and cost prices to present to the store buyers at the group meetings. Usually before merchandise was purchased jointly, the consent of each buyer was required. In a few instances, however, only two of the three stores had combined in the purchase of particular merchandise. Several times a single buyer had refused to participate in a group purchase. When cases of this kind had arisen, the matter had been referred to the divisional merchandise manager of the dissenting buyer. The divisional merchandise manager usually had reversed the decision of the buyer. In the opinion of an executive of the company, the chief value of group buying rested on the willingness of manufacturers to offer special terms because of the volume of business which they thought might be obtained.

An important function of the group meetings was selection of "preferred" resources. A preferred resource was a manufacturer who was willing to give special prices to the company, or a rebate on total purchases made during a six or twelve months' period. Preferred resources shipped merchandise directly to the stores on current orders. Merchandise purchased at group buying meetings and from preferred resources always was shipped directly to the individual stores. The Clacton Company did not operate a central warehouse.

Executives of the company did not know what proportion of the purchases of each department were made through group buying activities. Very little group buying had been accomplished in

millinery because the several store buyers had not agreed on styles or on preferred resources. Group buying had succeeded fairly well in staple merchandise; approximately 50% of the requirements of the departments selling sheets and pillow cases, dress goods, and women's and children's hosiery and underwear were purchased either in group buying meetings or from preferred resources. A somewhat larger proportion of the purchases of household equipment and men's clothing, shoes, and furnishings were made through group buying activities.

Executives believed that the company had made good progress in group buying and that it was securing lower prices than when the individual buyers had acted independently; they believed, nevertheless, that central buying offered even greater savings in cost of purchases and possibly in operating expenses than the company had yet achieved. Even though they had agreed on a preferred resource for an item, the store buyers frequently had not purchased solely from this resource. For instance, in the men's shoe departments, the company sold, in addition to other lines, its own brands of shoes priced at $5.50, $7.50, and $10. The buyer at Store C had refused to carry the $5.50 line, stating that his customers wanted shoes which sold at $5. Efforts to induce the store to carry the $5.50 line of shoes had been unavailing. This store had used the brand name of the $5.50 shoes for its $5 shoes but had not purchased them from the resource from which the other stores bought.

In January, 1929, the company decided to establish central buying for men's shoes and to create the position of department manager for men's shoes in each store. The buyer of one of the stores was placed in charge of central buying in the New York office, and his assistant was made department manager. In the second store the buyer resigned when his buying duties were taken away from him. In the third store the buyer, who had not been particularly successful in that position, remained as department manager.

The central buyer, who was under the manager of the New York buying office, was made responsible for purchases, sales, stocks, mark-up, turnover, discounts, and gross margin in each of the stores. Orders which he placed were confirmed by the manager of the New York buying office. The central buyer was to authorize all mark-downs except those which a department manager might take on individual pairs of shoes. He was

expected to transfer merchandise among the three stores as needed, and he was to be consulted on all personnel matters affecting the men's shoe departments. He was required also to prepare promotional plans for each six months' season.

The department manager of each store, under the plan of central buying, was held responsible for the operation of his department. He was expected to sell merchandise as well as to manage the department. He could place special orders, purchase findings, and place fill-in orders which did not exceed $75. He was required to keep stocks balanced in sizes and to make a weekly activity report to the central buyer, covering department advertising, display, stocks, and preparations for and results of promotional events.

The individual stores furnished the central buyer with six months' plans of sales, purchases, and stocks, and also with weekly open-to-buy figures. The statistical departments of the stores were required to make daily reports to the central buyer, showing daily sales by style numbers and prices, the accumulated sales for the month to date, the stock on hand for the style numbers sold, and the gross sales of the department for the corresponding day of the previous year. The statistical departments also prepared weekly reports giving, for each price line and for the eight merchandise classifications, sales for the week, sales for the month to date, stock on hand, and stock on order. A monthly style-number analysis was required, also, which showed for each style number the sales and stocks by sizes and widths. In addition, the central buyer could call on the department manager for a rough estimate of stock on hand at any time.

The first step of the central buyer was to analyze the price lines and resources of the shoe departments of the three stores. In Store C, where a $5 shoe was purchased from a resource from which the other stores did not buy, the central buyer ordered that the $5.50 price be used and that the shoes be purchased from the resource used by the other stores. In spite of protests from the department manager that the customers who had been paying $5 for their shoes would not pay $5.50, the central buyer's decision was supported by the general merchandise managers. In Store B, shoes retailing at $7.50 were purchased from a different resource from that which supplied the other two stores; the central buyer decided to purchase these shoes from only one resource. Store C carried shoes at $10 from two different resources; one shoe was

under the company's own brand, and the other was a nationally advertised shoe. Because of a strong demand for the nationally advertised brand of shoes, the central buyer deemed it inadvisable to discard this line. There were approximately 20 styles of this shoe in stock, totalling about 1,200 pairs. The central buyer decided that 10 style numbers at $10 were sufficient and that the other 10 styles should be discontinued. Store C also had about 1,000 pairs of shoes in 15 styles of the company's own brand at $10. The central buyer planned not to reorder any of these styles for Store C and to use the stock on hand to fill requirements of the other stores. He expected that six months would be required for the shoes to be transferred entirely. No mark-downs were to be taken when the shoes were transferred from Store C to the other two stores.

The central buyer stated that the new policy would enable the company to secure special terms which had not been obtainable previously. For instance, the manufacturer of the $7.50 shoes agreed to give the company a $1 rebate on all shoes sold during the semiannual sale, when that line was sold at $6. The central buyer expected that between 800 and 900 pairs of these shoes would be sold during the semiannual sale in the spring of 1929. Also the manufacturer from whom the Clacton Company purchased men's slippers amounting to approximately $20,000 annually at cost raised the discount from 7½% to 12½% after central buying was instituted.

Did the Clacton Company follow a sound policy in centralizing the buying of men's shoes?

Should it have planned to extend central buying to other departments?

16. IRWIN COMPANY

UNIT DRUG STORE—MEMBERSHIP IN A VOLUNTARY CHAIN[1]

During 1928 and the first six months of 1929 the Hurd Company, manufacturers of drug preparations, had purchased the assets of approximately 60 wholesale drug distributors, located throughout the United States, which then became Hurd Company subsidiaries, and had entered into cooperative agreements with over 15,000 retail drug stores, thereby forming a so-called voluntary chain.

In June, 1929, the manager and principal stockholder of the Irwin Company, a retail drug store, was approached by a representative of the Hurd Company subsidiary in the territory with the proposal that the store become a Hurd Company associate. According to the representative, a majority of the customers of this subsidiary wholesale company had signified their intention of becoming members of the Hurd Company organization. The Hurd Company, through its wholesale drug distributor subsidiaries, offered to retail drug stores advertising, display, and merchandising services which, it was asserted, would enable the stores to compete successfully with chain drug companies.

The Irwin Company was located in a small suburban city which was adjacent to a large eastern city. The company, which had been established for many years, had a reputation for reliability among residents of the suburban city. The manager had followed a policy of emphasizing the service offered by the prescription department, and in 1929 was securing a substantial volume of sales in this department. The store was located in a small trading area, at the intersection of two streets. A surface car line from the adjacent large city operated along one street. The section of the suburban city in which the Irwin Company was located, except in the immediate neighborhood of the Irwin

[1] The following description of one of the leading voluntary chains in the grocery field was published in 1930:

Independent Grocers' Alliance.

"Headquarters, Chicago. Fifty-eight wholesalers and over 9,000 retailers said by headquarters to be operating under general I. G. A. plan. Independent Grocers' Alliance Distributing Corporation, made up of wholesalers, issues franchises to wholesalers, who pay fixed sum for franchise plus $10 per year for each retailer in territory, of which $5 is to be sent aside for national advertising.

"For guidance of wholesaler, complete credit and collection plan is supplied; budget for control of expenses is set up by headquarters; operations in packing, shipping, and delivery are studied; salesmen's territories analyzed and unprofitable accounts cut off; and organization revamped where needed.

"Representatives of wholesalers attend monthly buying meeting in Chicago, to facilitate pooling of purchases and more effective merchandising and sales promotion.

"Retailers pay wholesaler $3.50 per week, and receive extensive advertising and store management service. By contract they agree to concentrate buying through I. G. A. wholesaler; to remodel store according to plans supplied by headquarters, which are largely self-service, and which include uniform exterior and interior painting, shelving, and equipment; to follow directions of headquarters with regard to credits, advertising, sales promotion, store service, etc.

"Items to be advertised each week selected by each wholesaler for his stores; advertising includes newspapers, window posters, window background placards; window trim instructions; copies of Store News (every other week), in which are featured menus, recipes, and other home helps prepared by Home Economics department. Eight times a year national drives are put on in all stores."—American Institute of Food Distribution, Inc., *The Voluntary Chains*, New York, 1930, page 23.

Company, was entirely residential. There was only one other drug store nearby. Including the manager, who was a registered pharmacist, there were from two to three persons on duty in the Irwin Company's store at all times. The store was open approximately 15 hours every day in the week.

In addition to maintaining a prescription department, the company sold proprietary articles, toilet goods, rubber goods, sundries, cigars, cigarettes, and candy. The company also operated a soda fountain. The sales of the store were not departmentized, but the manager estimated that pharmaceuticals, toilet goods, and sundries represented 58% of total sales; the soda fountain 20%; cigars, cigarettes, and candy 20%; and miscellaneous merchandise, such as alarm clocks and thermometers, 2%. In 1928, sales had been approximately $55,000. The manager estimated that the gross margins on the various types of merchandise sold were approximately as follows: patent medicines 20%; toilet goods 33⅓%; pharmaceuticals 40%; soda fountain merchandise 40%; sundries 50%; cigars, cigarettes, and candy 25%. The operating ratios of the Irwin Company for 1928 were as shown in Exhibit 1.

EXHIBIT 1

IRWIN COMPANY

Operating Ratios for 1928
(Net Sales = 100%)

Sales		100.0%
Cost of Merchandise		68.7
Gross Margin		31.3%
Salaries and Wages, including Manager's Salary	17.5	
Rent	3.9	
Light, Heat, and Power	1.0	
Interest	1.5	
Telephone	0.4	
Taxes	0.3	
Advertising	0.1	
Supplies and Miscellaneous	0.2	
Total Expense		24.9
Net Operating Profit		6.4%

The company advertised three or four times a year in the local weekly newspaper, which had a circulation of approximately 3,000. The company used a few other means of publicity, such as free packets of matches. Total advertising expense in 1928 was about $55. The corner location of the Irwin Company afforded two windows, which were trimmed twice a month by the

manager with displays of merchandise that was seasonable and profitable. As the company never offered merchandise at special prices and always sold its merchandise at the usual or manufacturers' suggested retail prices, it did not attempt to meet special prices of its competitor or of chain drug companies located in nearby cities.

Except for a few large cities, the organization of the Hurd Company covered every section of the country. The company had purchased outright the assets of the wholesale drug companies which became its subsidiaries. Retail druggists became members of the organization on signing a contract which either party could terminate by giving 30 days notice in writing. The Hurd Company also had agreements with over 100 manufacturers of well-known products whereby the Hurd Company gave these manufacturers space in its advertising and also displayed their products in the windows of member stores.

The contract between the Hurd Company and an associated retail druggist provided that the Hurd Company subsidiary in the territory was to assist the retail drug store in adopting modern methods of accounting and of merchandising. The member store could purchase merchandise on terms as advantageous as, but no better than, those granted any other retailer purchasing from the Hurd Company subsidiary. The member store could buy merchandise from any wholesaler or manufacturer, and the Hurd Company could sell to any retailer, irrespective of membership in the Hurd Company organization. The Hurd Company was to maintain an advertising and merchandising department which would prepare full-page advertisements for insertion every other week in the Sunday newspapers of a chain which published newspapers in 28 cities. The circulation of the Sunday newspapers of the chain totaled 6,000,000. Each advertisement would include Hurd Company products and the products of from 8 to 12 manufacturers with whom the Hurd Company had advertising and display agreements. Through an independent national display organization, the windows of the member stores would be trimmed with the products advertised, free of charge, every other week.

The contract stated that the Hurd Company subsidiary would assist the retailer in meeting chain store prices that were below the normal cost of the merchandise, if evidence of the need for this help were furnished, and if the retailer's purchases of other merchandise from the Hurd Company subsidiary were large enough

to justify such assistance. When these conditions existed, the Hurd Company subsidiary would furnish nationally advertised articles at prices which would enable the retailer to meet chain store prices.

A member store could purchase as many as 100 shares of Hurd Company common stock at $45, paying $3 down and $2 monthly per share. On withdrawal from the Hurd Company, a store could choose either to complete its purchase of the stock which it was buying on the deferred payment plan or to receive a refund of the payments already made. The retailer could sell his stock at any time. Additional shares could be purchased through the medium of the Hurd Company's plan of cash discounts on certain articles. On various Hurd Company products, discounts ranging from 1% to 10% were offered for cash payments in order to secure prompt payments and to encourage the purchase of these articles by the retailers. The discounts obtained could be applied monthly against the purchase of common stock, or might be withdrawn in cash if the retailer so desired.

A retailer who entered into a contract with the Hurd Company agreed to display the company's symbol on the front of his store, to give one or more windows to the display of products of the company and of affiliated manufacturers, to keep a stock of such products on hand, and to promote the sale of these products. The retailer was permitted to return merchandise that had been on display, if the merchandise did not sell. In the case of the Irwin Company the agreement would contemplate the purchase from the Hurd Company subsidiary of merchandise to the value of not less than $8,000 annually. This provision, the Irwin Company expected, would not be enforced strictly. The Irwin Company would not be expected to make any reports to the Hurd Company. The contract also specified that the retail store should pay P. M.'s on certain products of the Hurd Company and its affiliated manufacturers. The Irwin Company had not paid P. M.'s previously.

At the time the Irwin Company was approached by a representative of the Hurd Company subsidiary, it was purchasing 70% of its requirements through this concern, which was the largest wholesale drug distributor in the territory. The remaining purchases were specialties which were obtained directly from various manufacturers. The manager of the Irwin Company estimated that the company's purchases of products manufactured by the Hurd Company had amounted to $700 at cost annually. He did not know how much merchandise packaged under the wholesale drug company's brand had been purchased. The Hurd Company expected to replace the wholesale drug company's brand name with the Hurd Company brand name.

On the products of the Hurd Company and its subsidiary, the Irwin Company obtained a gross margin about 15% higher than the gross margin on similar merchandise packaged under manufacturers' nationally advertised brands. It was possible for the Irwin Company to have some preparations, such as cough medicine, packaged or bottled under its own label; and on such items an additional gross margin of 10% was obtainable. If the Irwin Company joined the Hurd Company organization, it would not be able to buy the products of affiliated manufacturers on any better terms than non-member retailers; the distribution of these products was not limited to stores associated with the Hurd Company.

Membership in the Hurd Company organization was not restricted to one store in a neighborhood. The manager did not believe, however, that his nearby competitor would join the organization.

Should the Irwin Company have joined the Hurd Company organization?

17. LEYBURN COMPANY

SHOE CHAIN—PROFIT SHARING WITH MANUFACTURER

In 1923 the Leyburn Company, which operated a large chain of shoe stores in the smaller cities and in suburban districts of large cities throughout the United States, was in a position to secure control of the Edgeware Company, a large manufacturer of shoes. The Leyburn Company sold a medium-price line of men's, women's, and children's shoes, and also hosiery and slippers.

Prior to 1923 the Leyburn Company had purchased from independent manufacturers all the shoes that it sold. Since it was a large distributor, it had contacts with numerous manufacturers, several of whom sold it a substantial portion of their outputs. Although the Leyburn Company had depended chiefly on manufacturers to originate designs or to copy successful styles sold

at higher prices, occasionally it undertook to design shoes on its own responsibility. In 1923 the Leyburn Company was interested in securing control of the manufacture of its shoes in order to reduce operating costs and thus improve its competitive position in the retail market.

The Edgeware Company had a capacity great enough to supply the requirements of the Leyburn Company and leave a margin of 25%. It was well equipped, and its owner was recognized as one of the leading shoe manufacturers of the country. In 1923, however, the shoe industry had not recovered from the general business depression; and the Edgeware Company, like many of its competitors, needed financial assistance.

The president of the Leyburn Company considered that purchase of a manufacturer's business would not be the best solution, even though his company was financially able to purchase outright. He believed that vertical integration between manufacturers and distributors was undesirable. In his opinion, a typical integration was headed by one man, who was either a manufacturer or a distributor. When the chief executive was a manufacturer, there was a tendency to try to force the stores to sell what the factory made. On the other hand, when an integrated company was headed by a retail distributor then the manufacturing plant failed to receive proper consideration, orders, for instance, not being placed sufficiently far in advance to allow the most economical operation of the factory. The president of the Leyburn Company, therefore, worked out an alternative proposal, involving a profit-sharing agreement, which he thought would be a more satisfactory arrangement. Hence the owner of the Edgeware Company gave consideration to the plan which the Leyburn Company had developed.

According to this plan, the two companies were to study their past records and decide on an equitable distribution of profits between distributor and manufacturer. The plan further provided that the Leyburn Company should arrange its orders, in so far as possible, so as to keep the Edgeware Company operating at a constant rate throughout the year. Likewise, the Leyburn Company was to warehouse many of the shoes manufactured in advance of the period when they would be sold. The Leyburn Company, considering that it should be allowed to take advantage of lower prices if other manufacturers offered them, did not agree to purchase all its shoes from the Edgeware Company. The

Leyburn Company was to maintain the same inspection for quality of the shoes it purchased from the Edgeware Company as it did for quality of shoes purchased elsewhere. The Edgeware Company was to be allowed to sell shoes to other customers and, in fact, was at all times to keep its operating capacity larger than the needs of the Leyburn Company warranted. Profits were to be shared on the shoes that the Edgeware Company sold to outside firms; but, in turn, the Leyburn Company was to share with the Edgeware Company its profits on shoes purchased from other manufacturers, and on hosiery and slippers.

Following a series of conferences between the executives of the two companies, a profit-sharing agreement was entered into, which allowed the Edgeware Company one-third of the profits of the Leyburn Company and the Leyburn Company two-thirds of the profits of the Edgeware Company. The managements of both companies decided that, in general, capital invested in a retail business should secure a greater return than that invested in a manufacturing plant. Furthermore, they believed that the net profits earned by the companies depended more fully on the operation of the retail organization than on the operation of the manufacturing plant. Moreover, an analysis of records showed that the division of profits decided on was approximately in accordance with each company's past experience. Each company was to allow the other company free access to its books, and a firm of outside auditors was to determine the profits.

The Edgeware Company was to sell shoes to the Leyburn Company at a price which was expected to offer a fair profit, though lower than the price to outside customers Any error in setting this price would be offset, it was thought, by the distribution of profits. The Leyburn Company was to advance payments for shoes if the financial condition of the Edgeware Company required it. The agreement was to be kept secret, but the executives expected that the trade would soon learn that some agreement was in effect.

Did the Leyburn Company follow a sound policy?

SECTION XI

ORGANIZATION AND GENERAL POLICIES

SUGGESTED READING

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1. SHREWSBURY COMPANY

DEPARTMENT STORE—ORGANIZATION FOR BUYING

A majority of the capital stock of the Shrewsbury Company was owned by the president, the vice president, and the secretary-treasurer. In addition to performing the duties required by their positions as officers of the corporation, each of these three men acted as merchandise manager for one-third of the 32 selling departments of the store. In the latter part of 1919, because of dissatisfaction with the work of the seven buyers who did all the merchandise purchasing, these executives turned their attention to the reorganization of the merchandising division of the store.

The Shrewsbury Company's store was located in an eastern industrial city with population of approximately 250,000. In 1918, total net sales had amounted to $2,500,000. Approximately 70% of the store's customers were granted credit. The personnel of the store comprised 145 salespeople and about 165 non-selling employees. Of the company's seven buyers, one purchased for only one department, but each of the others bought goods for from two to seven departments. At least once each month the buyers went to New York to purchase merchandise. Each buyer made purchases for his departments according to his own judgment, subject only to the approval of the merchandise manager to whom he was responsible.

The merchandise managers were convinced that there was a serious weakness in the store's organization, since the buyers invariably spent most of their time in the performance of duties connected with the buying of merchandise, to the neglect of selling, and yet did not always buy goods that would sell readily. The merchandise managers therefore proposed gradually to reorganize the merchandise division by assigning to each department or group of closely related departments a separate buyer with responsibility for both buying and selling.

Under the proposed plan of organization, each of the three merchandise managers was to have an assistant to aid the department buyers in the planning of sales, stocks, and purchases. In effecting this reorganization the Shrewsbury Company planned

to promote several of the senior salespersons to positions as buyers. Because of the inexperience of these individuals, however, and the necessity for much educational work, it was estimated that three or four years would pass before the new organization operated smoothly.

Was the decision of the management in this case in accordance with sound principles of department store organization?

2. WHITEHILL COMPANY

DEPARTMENT STORE—DIVISION OF RESPONSIBILITY BETWEEN BUYERS AND SECTION MANAGERS

In the spring of 1929 the question arose in the Whitehill Company as to whether the buyers should retain the responsibility for the original prices of merchandise, for the marking down of merchandise, and for the arrangement of merchandise in the departments and on display. This question was raised by the contention of the service division that a certain lot of dresses should be marked down.

The Whitehill Company, a department store with annual sales of $23,000,000, was located in an eastern city of over 1,000,000 population. The store was divided into 132 departments, many of which were subdivided. The store had separated buying and selling in most respects, making the buyers responsible only for buying, and placing the section managers in charge of selling, instead of making the buyers the heads of their departments, responsible for both purchases and sales, as was common in many department stores.

The general merchandise manager of the Whitehill Company was the head of the buying staff and supervised the buying of merchandise for the store. The duties of the buying staff included securing the delivery of merchandise when needed; making contacts with manufacturers and other sources of merchandise; securing the proper grades of merchandise; and pricing the merchandise purchased. The service manager was in charge of selling and of consumer service. He had been given the title of service manager because the store wished to emphasize the service aspect of selling. It was the duty of the service manager to see that a customer was satisfied with the service and merchandise which she purchased, and that merchandise which was desired by customers was stocked by the store. He also supervised the training of the salesforce, including the general training given by the training department immediately after the employment of a new salesperson. This general training was designed to familiarize a newcomer with the general policies of the store, with the types of merchandise sold, and with the location of departments through the building. The service department also gave the salespersons training courses in color and line, materials, styles, and selling. The lessons occupied half an hour each, and were given once or twice a week. About a year was required to complete all the courses.

Buying was done by the buyers, supervised by the divisional merchandise managers under the direction of the general merchandise manager. The duties of the buyers and divisional merchandise managers in the Whitehill Company were similar to those of buyers and merchandise managers in most department stores, except that they were relieved of selling responsibility. They familiarized themselves with styles and markets; they priced the merchandise and directed its arrangement in the departments and on display; they also were expected to inform the salespeople of the sales points of new merchandise and of current fashion tendencies. The comparison department was responsible to the merchandise office.

The service manager was in charge of most of the store's selling functions. Theoretically, he was under the store manager, who was equal in rank to the general merchandise manager; but actually the service manager had been able, because of his personality, to place himself on a plane of equal authority with the general merchandise manager. Differences between them, on questions which were not clearly within the jurisdiction of one or the other, were referred to the general manager of the company. The service manager was represented by floor managers and section managers, who were theoretically equal in rank to the divisional merchandise managers and buyers. A floor manager was in charge of a floor, or parts of several floors selling similar merchandise, while a section manager was in charge of a department.

The service division was responsible for the care and security of goods after they were placed in forward stock, for sales, for the upkeep of equipment, for the identification of customers, for

adjustments, and for all matters which dealt with consumer satisfaction. Credit was granted only by the credit department, but the section managers were required to identify customers. All adjustments were made by the section managers. They were instructed to assume that in general the customer was always right.

The service division also managed the personnel of the sales-force. Each section manager was required to plan in advance the number of salespersons needed in his department and was responsible for the efficiency of the salespeople under him. Transfer of a salesperson from one department to another might be made by the service division when there was conflict between a salesperson and the buyer or between a salesperson and the section manager, in case the salesperson was not believed to be entirely at fault. When a buyer believed that a salesperson was undesirable, he could explain his views to the section manager. In case the section manager and the floor manager were convinced that the buyer's objection to the salesperson was unfounded, they attempted to correct the trouble but usually kept the salesperson in the department, even against the buyer's wishes.

The section managers' duties, while similar in general, varied among the individual departments. In the shoe department, for instance, the section manager was aided by two assistants. He was the first to arrive at the department in the morning and the last to leave it at night. Upon his arrival in the morning, he first made sure that all special orders of customers for merchandise not in stock had been forwarded to the manufacturers. He then read the customers' letters of complaint which had been sent to him from the adjustment department, and made the necessary adjustments. Before the store opened for business, he looked over the stock in his department to see that it was complete and properly displayed. Two mornings each week the buyer of the department gave a talk to the salespersons, telling them of new fashions and indicating the salient points of new shoes which had come into the department. On the other mornings the section manager talked to the salespersons, giving them selling ideas and general information which he believed they should have. During the day he made adjustments when customers came in with complaints either about merchandise or about treatment by salespersons. He kept watch of the sales methods of the salespersons and followed up those requests for merchandise not in stock which were listed

by salespeople on want slips or which he personally had heard. At night the section manager was expected to see that all merchandise was put away and that all necessary locking of show cases and storage drawers was done. Before he left the store he turned the keys over to the protection department.

In the misses' high-grade dress department, the section manager after her arrival in the morning first inspected the merchandise display in her department. The proper display of goods and an attractive appearance of the department were necessary to draw customers. Consequently, although the decorating committee was supposed to arrange the displays in each department and the buyer was responsible for proper displays, the section manager was careful to see that they were satisfactorily arranged. Sometimes she also suggested ideas for the decorating committee to carry out. The care of the merchandise while in forward stock and the proper replenishment of forward stocks were delegated to the salesgirls. The section manager was expected, however, to see that these duties were properly carried out. She also suggested to the buyer items for which she believed there was a sufficient demand among customers to make stocking them advisable. Records of alterations and other special work done for customers in the department were kept by the section manager.

In a number of other departments the duties of section managers were in general similar to those in the two departments described. On the main floor, however, the section managers had much less responsibility for sales effort, since the merchandise was usually bought on impulse. There their task consisted chiefly in keeping proper displays and proper stocks of merchandise and in being certain that customers were satisfied with their treatment. While the buyers had the authority to arrange displays of merchandise, the section managers usually arranged them without any interference from the buyers.

The floor managers were expected to keep departmental policies uniform and consistent with the general policies of the store. They conducted the training courses for salespeople. When a section manager was uncertain of the identification of a customer, or of the proper adjustment to make of a customer's complaint, he could appeal to the floor manager. Such appeals seldom occurred, however. While one or two investigations had been made in departments which had shown high percentages of returns and allowances, no section manager had ever been criticized

for his adjustment policy. The floor manager was expected to settle any differences which section managers had with customers, buyers, or salespersons.

The service manager believed that since the service division was responsible for sales it should have the authority to arrange the merchandise and displays in the departments, and that the buyers should be relieved of all responsibility for merchandise after it was placed in forward stock.[1] The service manager also believed that the service division should price the merchandise. Floor managers already had the authority to refuse to sell merchandise which they thought unsuitable or too high in price, and they believed that they could more nearly gauge the value of an article to the customer than the buyers could, since the latter were in the market most of the time.

In March, 1929, a dispute arose between the merchandise and service divisions as to whether a specific lot of crêpe de chine dresses should be marked down. In the ready-to-wear departments, merchandise was supposed to be marked down after it had been in stock a month; in some of the departments with more staple merchandise, this limit was as high as four months. On March 15 it was found that out of an order of 2 dozen crêpe de chine dresses 18 were still on hand. The dresses had been purchased to sell at $16.50 and placed on sale January 25. Only one dress had been sold during the ten days preceding March 15, and one dress during the ten days following that period. The

[1] "Making the buyer the manager of his department by placing him in complete charge of its operation, its personnel and its sales, is a new policy just put into effect at Frederick Loeser & Co., Brooklyn, it was announced at the store this morning.

"There are several reasons for this new policy, it was said. Buyers are very quick to say, 'Well, I buy the merchandise, I have nothing to do with the selling of it.' That statement is often made when a department is not showing the best results. Then again, having the salespeople answer to a floorman has not the proper psychological effect. The salespeople realize that the floorman is only a small-salaried person and have little respect for him. They look to the buyer as their natural boss and more readily take orders and follow out instructions from him.

"A close study of complaints was made by the store among its customers and a majority of replies received indicated that a fault in selling was the trouble. The information revealed that a more thorough supervision of the salesforce was necessary, and it was felt that the buyer was the logical person to improve the condition.

"Under this new arrangement the buyers set the sales quotas for the salespersons and follow up the records of their performance. The floormen are still responsible for the salespersons but they are responsible to the buyers. The buyer plans for his department the number of salespersons needed for the next three months and informs the employment office of his needs. The employment office selects recruits but leaves it to the buyer to choose among these recruits."—*Women's Wear Daily*, October 29, 1928.

section manager believed that the dresses should be marked down to $13.75. Not only were the dresses becoming slightly shopworn, but customers were beginning to realize that they were old stock, and the salespersons were too familiar with them to be enthusiastic about them. The buyer, however, was not willing to have these dresses marked down. In the first place, he had already taken his quota of mark-downs for the period; and, in the second place, he believed that with the coming of warmer weather the dresses could be sold at the original price.

As there never had been a decision as to who should have the final authority in such questions, the section managers were forced to appeal such disagreements to their superiors. Before the arguments reached the general manager, time had usually solved the problem; for by then the buyer was willing to take a mark-down. The service division believed that it should have the authority to force these mark-downs at once. In this instance, the buyer had offered to mark the dresses down to $15, but the section manager did not consider that mark-down great enough to be effective.

Such disagreements, however, did not occur frequently and had never reached serious proportions; the Whitehill Company had had very little conflict between the buyers and section managers. The sales persons had been willing to look to the section managers for direction rather than to the buyers. The service manager believed that this attitude of the salespeople was due to their recognition that, while the buyer was typically paid a slightly higher salary than the section manager, this salary was based on his ability as a buyer rather than as a sales manager. Furthermore, section managers were willing to assert their authority and at times even to refuse to follow buyers' suggestions. Such a situation had occurred when the section manager had decided to place on a certain grade of coats a tag stating that the fur around the collar would not wear well. The buyer argued that the store's customers knew that this grade of fur would not wear well and that the placing of such a tag on the merchandise would lose sales for the store. Furthermore, he considered such an action a reflection on his buying ability. The service manager thought that the goodwill which the store would gain by such an action would more than outweigh the loss of a few sales. Accordingly, the tags were retained against the buyer's wishes.

The section and floor managers believed that they were successfully giving the buyers the information on consumer desires which they required and that the buyers did not need to control selling in order to gain this information. The buyers had access to all sales records and could study the customers on the floor, even though they had no sales responsibility; during rush hours, the buyers and their assistants often did actual selling on the floor. The buyers had nearly all been trained in the store and were accustomed to working with the section managers. They were satisfied to be relieved of selling responsibility, since they believed that their time could be spent profitably in the market.

The morale in the service division was high. The members believed firmly in the importance of their work. They were convinced that the duties which they performed required special qualifications and that a person who was a successful buyer might not necessarily have these special qualifications. It was their opinion that consumer service was the main function of the selling force and that the service division, therefore, should control the selling departments.[1] Members of the service division maintained that special qualifications were required for successful section managers. They believed that a section manager must like people, since otherwise, in their opinion, he could not successfully deal with customers. He must have tact and a knowledge of human nature in order to obtain cooperation from the salespeople and the buyers and to make adjustments that satisfied the customers. He had to have ability to teach, so that he might help the salespersons to learn salesmanship, and he needed keen observation to detect weak points in the operation of the department. He required a knowledge of style and merchandise in order to give selling points to the salespersons and to inform the buyers of consumer wants. Finally, it was necessary, of course, that he have executive ability and judgment, to enable him to manage the department and to be fair to customers, store, and employees.

Should the Whitehill Company have planned to extend the authority and responsibility of the service division?

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[1] "The modern tendency to make the sales force responsible to the store manager is more likely to defeat the safeguarding of service than it is to satisfy the assumed reason for its development, namely the protection of service. The sales force should be under the jurisdiction of the buyers or department managers. The floor or section representatives of the store managers should check the service to protect the customers. And they will not check that for which they are responsible."—Mazur, Paul M., *Principles of Organization Applied to Modern Retailing*, pages 121–122.

3. JAMES ANDERSON COMPANY

DEPARTMENT STORE—SEPARATION OF BUYING AND SELLING

Annual sales of the James Anderson Company, a department store, were more than $15,000,000. Although the sales volume had increased steadily, from 1921 up to 1924, the management was convinced that, in the future, volume of sales would depend upon sound sales policies and good service to customers, rather than primarily upon the shrewd exercise of the store's buying power. It consequently considered modifying the organization so as to place greater emphasis on sales activities.

As shown in Exhibit 1, the organization of the James Anderson Company comprised three main divisions: merchandise, service, and finance. Both the buying and selling functions, which belonged to the merchandise division, were vested principally in the buyers for the various departments.

Under the member of the firm in charge of the merchandise division was the merchandise manager of the main store, who controlled the nine divisional merchandise managers. In this division also were the publicity manager, the New York merchandise manager, and the basement store manager. Each divisional merchandise manager had charge of from 1 to 20 of the 53 department buyers. Each department was operated as an individual unit, although its policies had to conform to the general policies of the store. Securing coordination among departments was the duty of the divisional merchandise managers. Their approval was necessary for mark-down requisitions; they aided their buyers in planning sales and expenses for each six months' season, and assisted them in maintaining stocks with the proper assortment of prices, sizes, styles, and colors. The divisional merchandise managers also did some buying for their departments.

Each buyer, usually with the aid of an assistant, purchased and priced all merchandise for his one or more departments and was responsible for the sale and display of the goods. When merchandise entered the store, the buyer was called to the receiving room to inspect it; he retailed all orders, or invoices, and sometimes assisted in marking the merchandise. He arranged with the advertising manager for all window displays and newspaper advertisements. In planning a newspaper advertisement, the buyer selected samples of the merchandise which he wished

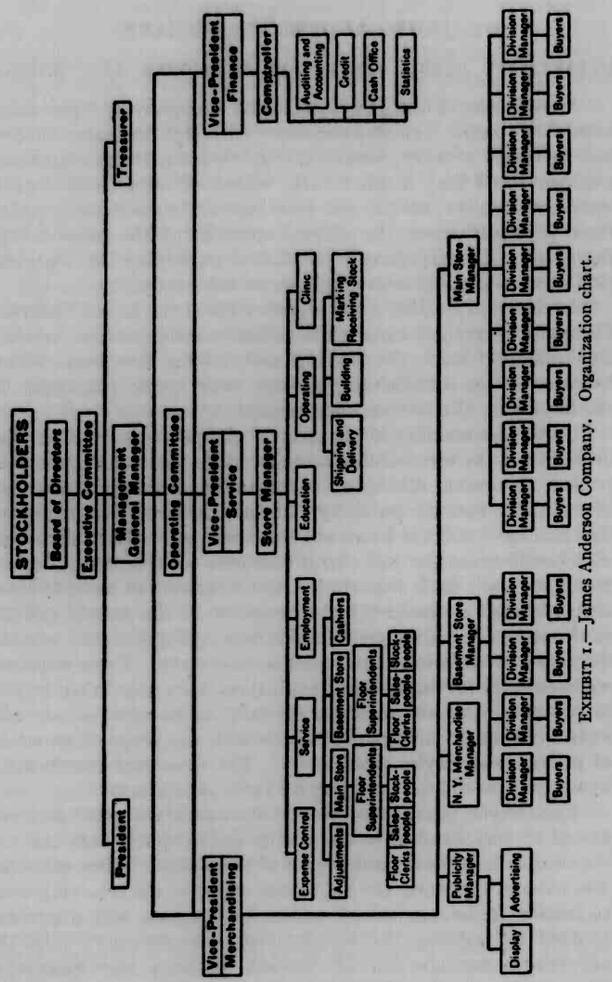

EXHIBIT 1.—James Anderson Company. Organization chart.

advertised, made notes of the important selling points, and gave them to the advertising manager for the copy writers. The buyer explained to the salespeople the selling points of the merchandise and instructed them as to the best methods of display.

The service division included the service department, the employment department, the educational department, the shipping and delivery department, the clinic, the expense control department, the receiving and marking room, and the building department. The building department comprised such employees as the store's detective force, night watchmen, maintenance men, engineers, firemen, oilers, elevator operators, matrons, porters, and cleaners. The most important department in this division, however, was the service department, which handled merchandise after it had been received from the receiving and marking room, and which was responsible for service to customers. In the service department were included the 32 floor superintendents, the floor clerks, cashiers, inspectors of sold merchandise, and stock-room employees.

In theory the floor superintendents were coordinate in authority with the buyers. It was a floor superintendent's duty to see that the salespeople were at work on time and that the merchandise was on the counters when the store opened. Sometimes, also, he adjusted customers' complaints and authorized the acceptance of returns, though in many instances buyers did this work.[1]

[1] The following list of duties was outlined for a floor superintendent:

1. *Displaying Merchandise.*—He is responsible for the proper display of merchandise at the most desirable time during the season.
2. *Service to Customers.*—He is responsible for promptness, courtesy, and efficient service to cutomers in his department.
3. *Volume of Sales.*—He is to cooperate with the buyer toward the accomplishment of the planned volume of sales.
4. *Training and Efficiency of Subordinates.*—He is responsible for the training and efficiency of the organization under his control.
5. *Store System and Relations.*—He is responsible for the enforcement of the store system and for store relations affecting himself or his department.
6. *Control of Expense.*—He shall keep all items of expense over which he has control as low as is consistent with a high standard of efficiency and service.
7. *Handling of Merchandise.*—He shall protect merchandise from damage and depreciation.
8. *Care of Floors and Fixtures.*—He is responsible for the appearance of his section.
9. *Opening and Closing the Department.*—He shall have his department ready for business each morning at 8:30 o'clock, and he shall be the last to leave it at night.
10. *Protection Duties.*—He is responsible in his department for the enforcement of store regulations affecting working hours, for such protection of the property of the company or of customers from loss by theft, fire, or other damage as lies within his power, and for the prevention of accidents.
11. *Meetings.*—He shall take an active part in all floor superintendents' meetings.

Although floor superintendents and buyers were coordinate in position, it occurred frequently that the buyers dominated the floor superintendents, because buyers usually were paid higher salaries than were floor superintendents.

The finance, or control, division was responsible for accounting, auditing, statistical work, credit and collections, insurance, and similar activities. All charge accounts were handled by the credit department. Whenever a customer wished to have merchandise charged, the salesperson had to call up the credit authorization office and receive authority to make the charge.

Because of the extended duties which had been delegated to the buyers in the past, high-salaried men had been employed. Although in a majority of cases the buyers had been efficient department managers, the management had concluded that it was impossible for a buyer both to attend to all the duties connected with the actual purchasing of merchandise and also to give sufficient time to selling. Previously it had been concluded that in order to buy merchandise most effectively a buyer needed to be in close contact with the store's customers, and that this contact could be obtained only by giving the buyer full responsibility for disposing of the merchandise. But experience had shown that buyers tended to concentrate on their buying duties and to spend more and more time in the markets. Under these circumstances they could not give much time to the actual work of selling the merchandise and so did not come into close contact with customers.

To meet this situation, a new plan of organization was suggested comprising four main divisions—buying, selling, service, and finance. The buying division, in conjunction with the selling division, would determine the amounts and kinds of merchandise to be purchased. The chief function of the buyers would be to buy merchandise and have it delivered as promised. Relieved of the detailed responsibilities of selling merchandise, it was expected that a buyer would be able to spend a large part of his time in the markets, and thus be in a better position to deal with merchandise sources and secure the most advantageous terms. Because of the wide variety of merchandise bought and the great differences in the markets for different types of goods, no consideration was given to the possibility of consolidating the buying function to a greater extent.

The selling division would be headed by a general executive, known as the sales manager, on a coordinate plane of authority with the heads of the other three main divisions. This division would receive the merchandise, mark it in accordance with prices set by the buyers, store it in reserve stock, if necessary, and send it to forward stock as needed. Floor superintendents representing the selling division on the selling floors would take care of all relations with the public in the work of selling and in the adjustment of complaints. They would have direct supervision over all salespeople and would have full authority to transfer them. Also, the floor superintendents would cooperate with the employment office in hiring and discharging salespeople. Each department, however, would remain a separate unit.

The management of the company proposed to employ higher salaried men than it had in the past for floor superintendents, and to place them as nearly on a par with the buyers as possible. Thus it was expected that the buyers would not be able to dominate the departments as they had done previously but would confine themselves to the work of buying.

In the proposed reorganization, the publicity department was to be made subordinate to the selling division, and no advertising duties were to be entrusted to the buyers.

The suggested program of reorganization contemplated that the service division, under a superintendent of service, would have control over building and mechanical maintenance, delivery service, packing, telephone service, tube room and equipment, and other similar activities. No change was proposed in the functions of the finance division.

Should the proposed plan of reorganization have been adopted by the James Anderson Company?

4. BLUE BANNER STORE COMPANY

GROCERY CHAIN—ORGANIZATION

The Blue Banner Store Company controlled and operated approximately 400 retail stores in a large eastern city and its suburbs. The stores sold medium-quality groceries on a cash basis. The average inventory of each store was approximately $2,100;

sales in the various stores ranged from $500 to $1,500 per week. The organization of the company was as shown in Exhibit 1.

Both the cost and the retail selling prices of merchandise delivered from the warehouse to the stores were entered daily on records maintained at the company's warehouse. Accompanying each order was a slip upon which were recorded at the warehouse the date, the name of the clerk who handled the order, the quantities of each type of goods delivered, the retail selling prices, and the total amount of the order at the retail selling prices. When the

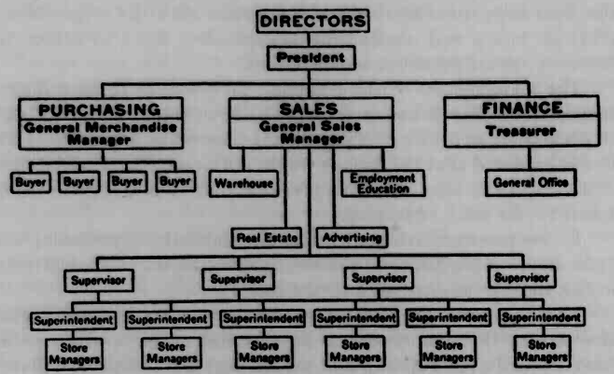

EXHIBIT 1.—Blue Banner Store Company. Organization chart.

goods were delivered to the manager of a store, he checked the lot; and, if it agreed with the slip, he confirmed the delivery. The slip then was returned from the store immediately, and the cost prices and mark-ups were entered on it. These slips were the basis for the records of merchandise charged to each store. Daily sales in dollars and cents, but not by lines, were recorded at each store; at the end of each week a report of total weekly sales was sent to the main office. From these records a weekly inventory at retail was computed for each store. Under this system, the managers of the stores did not know the cost of the merchandise which they sold.

Each store was in charge of a manager who did all the selling except in cases where sales volume was large enough to require the employment of one or two assistants. Each manager received

a guaranteed salary of $30 per week and a commission of 2% on all sales in excess of $400 per week.

The central managerial functions and duties in the Blue Banner Store Company were divided among the three leading members of the firm according to their various abilities. These men were the president, who assumed also the duties of the treasurer, the general sales manager, and the merchandise manager. They cooperated closely with one another, each keeping himself familiar with conditions in the departments under the control of the others.

For control of selling operations, each group of 17 or 18 stores located in contiguous territories formed a district under the charge of a superintendent, who usually was a former store manager. Ordinarily six districts formed a unit under the charge of a supervisor, who usually had had experience both as a store manager and as a superintendent and who was directly responsible to the general sales manager. Each store was visited every few days by the district superintendent, and once every two to four weeks by the supervisor. A superintendent or supervisor was expected to be able to judge by a visual survey whether or not a given store had too much or too little stock on its shelves. The general sales manager also visited each store from time to time.

The general sales manager was in charge of selling policies and also of warehouse receiving and shipping, employment and education, the real estate department, and advertising. Every three months a physical inventory of the warehouse stock was taken; the warehouse book inventory, which was recorded continuously, was corrected in accordance with the results of this inventory. Inventories of stores were taken at retail prices at intervals of from two or three weeks to three or four months, depending on the degree of confidence which the management had in the experience and ability of each store manager. A permanent squad of three men took the store inventories without notice to the managers.

The treasurer determined the financial policies and had under his control the accounts payable office and the office for the collection of control figures.

The merchandise manager had as his chief function the control of the buying policies. Under him were four buyers who handled the routine buying of merchandise more or less standardized in quality and price. The division of merchandise lines among these buyers was not definitely fixed but depended upon the individual

abilities of the buyers. With a few minor exceptions, buyers were not held responsible for profits. The merchandise manager determined the mark-ups with the aid and advice of the general sales manager, who kept in close touch with customer demand.

In order to attract customers into the stores, the company each week offered for sale some special article marked at a bargain price. Also, retail prices occasionally were marked up or down because of fluctuations in market values. Each time a change in price was to be effected, the general manager sent to each store, and to the superintendents and supervisors, notice of the amount of mark-up or of mark-down, and a list of the articles which were affected. These goods were immediately inventoried by each store manager and the quantities reported to the central office. Store managers were not permitted to determine or change retail prices on their own responsibility. One of the chief problems of the Blue Banner Store Company was the difficulty of securing and retaining capable men as store managers, superintendents, and supervisors.

Mr. Sanborne, general sales manager of the Blue Banner Store Company, stated that the organization of this company was not so definite and rigid as was the case with department stores and other types of retail businesses which had been in operation for a considerable number of years. In the chain grocery business generally the type of organization had not been definitely crystallized.

What were the significant points of difference between the organization of the Blue Banner Store Company and the organization of a typical department store?

5. WARRINGTON STORES CORPORATION

DRY GOODS CHAIN—ORGANIZATION

The Warrington Stores Corporation operated throughout the United States a chain of 350 dry goods and department stores selling low-price merchandise. The annual net sales of the individual stores ranged from $45,000 to $300,000; the total annual sales of the corporation were about $45,000,000. These sales included such items as men's furnishings, men's clothing, women's and children's garments, underwear, hosiery, shoes, piece goods,

notions, novelties, and bedding. All sales in the stores were made for cash, and no merchandise was delivered.

The corporation employed thirty buyers, two or three for each general line of merchandise bought. All merchandise sold in the stores was purchased or contracted for by these central buyers. Under the direction of the merchandise manager and his assistants, the buyers selected the lines of merchandise to be sold and determined the purchase prices and range of sales prices. During March and September, groups of seven to nine buyers went on trips to confer with store managers and show them samples of new merchandise. Different groups of these buyers went to different parts of the country on these trips at the same time. Each group made four or five stops on each trip. At previously arranged central meeting points, these groups of buyers met groups of 25 to 30 store managers who had gathered to inspect and order the new merchandise. Each manager knew the general types and quantities of merchandise which he should have on hand in his store, since standardized model stocks for stores of different sizes located in different parts of the country were made up by the merchandise manager and his assistants under the direction of the board of directors. With these stock plans in mind, the managers of the stores inspected the merchandise displayed by the buyers. They then selected what merchandise they needed for their stores and ordered it from the buyers. The buyers sent these orders to the central office daily.

About 40% of the mechandise sold in the stores was delivered to them from the corporation's central warehouse. The items delivered in this way varied from time to time, depending on the terms of purchase from the manufacturer; most ready-to-wear merchandise, for instance, was handled through the warehouse. The other 60% of the merchandise sold in the stores was delivered directly to the individual stores from the manufacturers. All merchandise was charged to the individual stores at cost. This practice was followed chiefly because the mark-ups on the same type of merchandise varied according to the location of the stores. Reorders for merchandise were made through the central office if such merchandise was on hand in the company's warehouse. Otherwise, merchandise was ordered directly from the manufacturer by the store manager, arrangements for this procedure being made by the central buyers.

A store manager was allowed to return defective merchandise to the central office and enter a claim against the buyer of that merchandise, who, in turn, had to take the matter up with the manufacturer. If a store was overstocked in a certain line of merchandise, the store manager was permitted to sell this extra mechandise to any other store manager in the chain who wished to purchase it.

Each individual store was operated by a manager as though it were an independent store, except that all merchandise was purchased and priced by the central office. Store managers frequently were former independent store operators, and about 240 of them owned a one-third interest in their stores and shared proportionately in the net profits. Each store manager paid the expenses of operating his store, including the salaries of his salesforce, rent, advertising, and so on, from the cash receipts, which he deposited in a local bank. The balance above expenses was sent to the central office periodically. All invoices for merchandise were checked and paid in the central office. The individual stores were assessed annually, on the basis of their volume of sales, to pay for the costs of the operation of the central office.

Physical inventory was taken at the end of each calendar year. Each store manager took the inventory, or supervised the taking of it, in his own store. The auditors of the corporation's books tested 50 of these inventories each year in order to secure an estimate of their accuracy. The average stock on hand, both in the stores and in the corporation's warehouse, during 1924, was $8,400,000. This figure usually increased to approximately $12,600,000 during the spring and fall seasons. All inventory figures were at cost.

The management of the individual stores was controlled to some extent by daily reports made to the central office by the store managers. These reports showed the merchandise received, on order, and sold, and the cash receipts and disbursements for that day. Summaries were compiled daily in the central office, and the merchandise managers received statements of the merchandise receipts, orders, and sales of the stores; these data indicated the condition of the stock in the stores. The treasurer received reports of the receipts and disbursements of cash, indicating the financial position of the stores. Records of orders, purchases, and sales of merchandise were maintained for the separate departments. This record work required a force of 15

clerks in the central office. The central office also maintained a training department, which trained the salespersons for their work in the stores. The managers could recommend changes in the personnel of their stores, but most of the employment functions were handled by the central office.

When the number of stores operated by the corporation had been smaller, the controller had set the mark-ups to be placed on the merchandise and had supervised the buyers, as well as managing the accounts and finances of the organization. As the number of stores in the chain increased, however, these duties had to be subdivided; and the duty of setting the mark-ups and supervising the buyers was given to a merchandise manager, who was on the same plane of authority with the controller. The controller of the corporation set the allowances for capital to be invested in stock in each store, and the merchandise manager set the stock limits in the individual lines of merchandise in accordance with this allowed capital investment. General supervision of both these functions was maintained by the board of directors, which was composed of a chairman, the president of the corporation, the controller, two vice presidents, and four other men.

Should it have been the policy of the Warrington Stores Corporation to exercise a greater measure of control over the operations of individual stores?

6. FRYTAG COMPANY

GARMENT CHAIN—CENTRAL BUYING AND CONTROL FOR FASHION MERCHANDISE

The Frytag Company sold women's and misses' medium-price dresses, hosiery, sportswear, underwear, and coats. The company had been established in 1915; at the end of 1928 it had 125 retail stores in operation, with total sales of approximately $14,000,000. The company planned to add 50 new stores during 1929 and expected to secure a sales increase of 50% over the sales volume for 1928. All sales of the Frytag Company were made for cash. The company did not advertise, and it did not hold special sales except two semiannual clearance sales, for which some merchandise was specially purchased in order to have complete stocks. The normal price range of dresses was from $10

to $25. The retail stores of the Frytag Company covered a large part of the United States; they were located in cities with population of 25,000 or more. The central office and the warehouse of the company were located in New York City.

A merchandise manager in the central office supervised all buying and merchandise control operations. In this work he was assisted by several assistant merchandise managers. Under the merchandise manager there was a buyer for each of the five groups of merchandise sold by the company, namely, dresses, hosiery, sportswear, underwear, and coats. For each group, there also were from one to three assistant buyers. Each buyer was responsible for the merchandise operations of her division. It was her duty to obtain the most suitable styles of merchandise, to buy the right quantities, and to secure the lowest possible prices. All merchandise sold in the retail stores was shipped from the central office. Store managers did not place any orders with manufacturers for merchandise.

The Frytag Company purchased all its dresses to order from manufacturers located in New York City. Because stock houses did not have a sufficient number of dresses in each model to supply the requirements of the company's stores, the company had found it necessary to buy from manufacturers. The central office received the dresses within a period of from several days to two weeks after the date on which it had placed the orders. The merchandise manager stated that although the company might buy from as many as 50 dress manufacturers during a year, it obtained most of its dresses from about 10 manufacturers. The Frytag Company purchased its other lines of merchandise from manufacturers who were located in New York City or who had sales offices there.

Divisional distribution managers, each of whom had from 10 to 20 stores under his supervision, controlled the shipments of merchandise. Merchandise was charged to stores at selling prices only. Store managers sent to the central office each day reports which showed the style number, color, size, and price of each article sold. The sales information obtained from these daily sales reports was recorded in the central office on tabulating machine cards; shipments to stores were recorded also on tabulating machine cards. The divisional distribution managers made daily analyses of shipments and sales for the stores under their supervision. On the basis of these analyses, new style

numbers and additional quantities of fast-selling numbers were shipped to the retail stores. The divisional distribution managers were responsible for detecting any items which were not selling readily. With the approval of the merchandise manager and of the buyers for the lines of merchandise concerned, the divisional distribution managers ordered mark-downs and transfers. Mark-downs could not be taken unless they had been approved by the central office.

Weekly summaries of stock on hand in each store were made from the tabulating machine cards. Copies of these summaries, which showed the quantities on hand by style numbers, colors, sizes, and prices, were given to the merchandise manager, the buyers, and the divisional distribution managers.

The retail stores of the company were divided into districts, usually of ten stores each. Each district was supervised by a field manager, who reported to the company's general manager in the central office. A field manager's duties consisted of checking displays, hiring store managers, and approving requests from store managers for merchandise that differed from that shipped by the central office. He also took a monthly physical inventory in each store in his district. In addition a field manager was expected to keep the central office informed of the newest style demands among the customers of his stores.

The personnel of a retail store comprised a store manager, who usually was a woman, and from 4 to 20 salespersons. Selling expenses were approximately 5% of net sales for the Frytag Company as a whole. The store manager's duties consisted of selling, arranging store displays, making daily sales reports, and reporting significant developments or circumstances. A store manager, with the approval of a field manager, could request mark-downs on merchandise which was not selling. She also could ask for particular merchandise which she believed would suit the demands of her customers. For instance, in January, 1929, the manager of a store located in a southern state requested that white sleeveless tennis dresses to sell at $15 and $19.50 be sent to her store. While the company's dress buyer knew that dresses of this type were being worn to some extent at southern winter resorts, none of the company's other stores had reported a demand for sleeveless dresses. With the consent of the merchandise manager, she purchased an assortment of white tennis dresses to sell at $15. Another store manager, in Tennessee,

requested graduation dresses during the first part of May. The dress buyer believed that this demand was too far in advance. An investigation, however, disclosed the fact that graduation exercises in this state were held during May rather than in June, as was customary elsewhere in the country.

On the whole, however, the store managers had very little voice in the selection of merchandise. They were responsible mainly for selling the merchandise which had been shipped to them. Executives of the company did not consider that the average store manager had the training, experience, or knowledge to enable her to forecast demand in regard to either style or quantity of merchandise. The merchandise manager stated that it was impossible to expect a store manager to know the latest developments from a fashion standpoint. Occasionally store managers were called to the central office. Field managers, however, visited the company's central office frequently to discuss with the general managers, the merchandise manager, the buyers, and the divisional distribution managers the problems of the stores which they supervised.

7. DUNBLANE COMPANY

VARIETY CHAIN—BUYING BY STORE MANAGERS

The Dunblane Company operated a chain of 50 variety stores selling merchandise ranging in price from 5 cents to $1. Total sales for 1928 amounted to about $15,000,000. Buyers in the company's central office purchased all merchandise sold in the stores; late in 1929, however, the manager of one of the stores contended that the store managers should be given authority to make occasional local puchases of merchandise.

The merchandise carried by the company was similar to that sold in most variety chains selling in the same price range and included such diverse lines as candy; hosiery; lingerie; men's, women's, and children's wear; novelties; stationery; jewelry; music; toilet articles; hardware; radio and electrical supplies; chinaware; aluminum ware; and toys. In addition most of the stores operated cafeterias. The stores were divided into three classes, according to their size, and a list was kept of the merchandise each class was to sell. Stores of the first, or largest-size

class, carried complete lines of the company's merchandise. Stores of the second and third classes were required to carry progressively less complete lines.

The buyers, each of whom was responsible for a number of lines, placed most of their orders with manufacturers' salesmen who called at the central office. For each line ordered the buyer entered in the company's list book the item, the name of the manufacturer, the cost price, and the suggested selling price. As soon as an item was entered in the list book, the stores affected were notified of the listing and of the cost and selling prices.

Each store was required to keep complete stocks of all merchandise listed for stores in its class; store managers were responsible for seeing that the merchandise was attractively displayed. As soon as a stock of new merchandise was put on sale, the managers were instructed to inform the buyer of that merchandise as to how it had been received by customers. Once each week the store managers with the aid of their assistants inspected stocks and placed orders with the central office for any merchandise needed. When the buyers had approved the weekly orders from all the stores, the orders were accumulated and sent to the manufacturers, who shipped the merchandise directly to the stores. The latter checked the goods received against the invoices and made any necessary claims for shortages or damages. The stores then forwarded the checked invoices to the central office for payment.

The Dunblane Company did not allow its store managers to buy any merchandise locally. The store managers were expected, however, to report items which were selling exceptionally well and those which were not selling well, and to report articles sold by competitors which the managers believed the Dunblane Company should carry.

Mr. Dunkirk, the manager of Store 39, established early in 1929, was convinced that he and the managers of other stores located in large cities should be allowed to purchase some merchandise locally. Since the sales volume of Store 39 had not been satisfactory to Mr. Dunkirk, he had carefully studied conditions in his city. Store 39 was located about two blocks from the center of the shopping district of a large eastern city. There were several competing 5-cent to $1 chain stores in the city, and in addition most of the department stores operated bargain basements. A few of the chain stores and nearly all the bargain

basements purchased job lots of merchandise and sold them at special prices. Mr. Dunkirk was offered job lots of merchandise at bargain prices as frequently, he estimated, as an average of three times a day. Although he was convinced that many of these offers were bargains, the company's policy prevented his taking advantage of them. Many of the lots offered had been purchased by his competitors.

The Dunblane Company never had used newspaper advertising except to announce the opening of a new store. It had given out handbills in its stores, but otherwise had depended entirely on its window displays to draw customers into the store. In the fall of 1929, however, Mr. Dunkirk decided that newspaper advertising would be effective, and secured the company's consent to experiment with it. The first advertisement, scheduled to appear in a Friday morning paper, featured several items at special prices for Friday and Saturday. For most of these, comparative prices were stated. One of these items was a quantity of children's sweaters, which the store regularly sold at 89 cents but which it priced at 50 cents for Friday and Saturday of that week. After the advertisement was drawn up, Mr. Dunkirk was offered at a price of 25 cents each 200 children's sweaters practically identical with the ones advertised. This price would have enabled him to sell the sweaters for 39 cents and still obtain his regular mark-up of 35%. He was, of course, unable to take advantage of the offer; but he feared that some one of his competitors would purchase the sweaters and that this merchandise would be in competition with his sweaters during the time of the sale.

Other instances chronicled by Mr. Dunkirk were as follows: A manufacturer of rayon bloomers had expected to sell a lot of 200 dozen to a regular customer, a competitor of the Dunblane Company. This competitor had suddenly changed his source of supply, however, leaving the manufacturer with this stock of bloomers, which usually sold at retail at $1. Although the manufacturer regularly sold them at $7.50 a dozen, he offered them to Mr. Dunkirk at $5.75 a dozen, a price which would have allowed Mr. Dunkirk to retail them at 69 cents. Another offer came from a manufacturer of nationally advertised candy, who offered 5,000 pounds of Christmas candy of first quality. This candy, which had been packed for a high-grade grocery company in the city, was regularly retailed at 39 cents or 40 cents a pound; the wholesale price was 22 cents. The manufacturer had packed this candy

in the wrong containers, however, and had had to turn it back into the bins, since he never sold as first grade any repacked candy. This lot was offered to Mr. Dunkirk at 7 cents a pound. To Mr. Dunkirk the candy looked as good as that which he sold regularly and he believed that it was of the best quality. He was confident, moreover, that he could dispose of the 5,000 pounds before Christmas. Both these offers had been accepted subsequently by competitors of Store 39.

Mr. Dunkirk also pointed out that there were some items of merchandise which sold well in his city but which did not sell in other parts of the country. For instance, wall paper was in much greater demand in some sections of the United States than in others. All the competitors of Store 39 sold substantial quantities of wall paper, and Mr. Dunkirk had received many requests from customers for it. He believed that, while it would not be wise for the chain as a whole to stock wall paper, it should be stocked in Store 39. Finally, there were various items which from time to time became popular in his city earlier than in other cities reached by the chain. Thus, a fad for turbans had begun in the city in which Store 39 was located, but not until the fad had spread to other cities had the company purchased turbans. By that time the popularity of turbans had begun to wane in Mr. Dunkirk's city, and while there was still a marked demand in other cities it had become unprofitable to carry them in Store 39. Mr. Dunkirk estimated that he had lost sales of over $300 on this one item by the delay in stocking it.

A leading competitor, located about a block nearer the shopping district than was the Dunblane Company, purchased merchandise in job lots and sold it at special prices. Mr. Dunkirk knew that approximately twice as many customers entered this competitor's store as entered his own store, and he estimated that the competitor's sales for 1929 would be more than twice as great as his own sales. This competing store, likewise a new store, was using extensive newspaper advertising and was building up its sales volume very rapidly.

In reply to Mr. Dunkirk's request for permission to purchase locally, the officers of the Dunblane Company pointed out that it was generally understood in the trade that the competing store cited would not make a profit and that the importance of its large sales volume should be discounted. In addition the officers urged that a desirable clientele for regular merchandise could not

be secured by selling job lots at special prices, and that competitors were not able to sell regular merchandise at prices lower than the Dunblane Company did. Finally, the company executives suggested that the store managers were not so well fitted to purchase merchandise as were the buyers.

8. HAYMARKET COMPANY

VARIETY CHAIN—ORGANIZATION

Late in 1929 the Haymarket Company considered making substantial changes in its form of executive organization. The company operated 150 stores in eastern, middle-western, and southern states; among the articles sold were dresses, shoes, hardware, radio supplies, and yard goods. All the merchandise was priced under $5. Sales in 1928 were approximately $40,000,000.

The stores were divided into three districts. The eastern district comprised stores in the New England states, New Jersey, and the eastern parts of New York and Pennsylvania; the eastern district office was in New York City. The midwestern district, with its office in Chicago, included the remaining stores in New York and Pennsylvania, and also stores in Ohio, Michigan, Wisconsin, Minnesota, and parts of Indiana and Illinois. The southern district, with its office in St. Louis, included parts of Illinois and Indiana, and also Missouri, Oklahoma, Texas, Mississippi, Arkansas, Alabama, Georgia, Tennessee, and Kentucky. There were approximately 50 stores in each of the 3 districts. By 1933 the company expected to have approximately 300 stores, distributed fairly evenly among the 3 divisions, and to reach a sales volume of $90,000,000.

The existing organization of the Haymarket Company was as shown in Exhibit 1. The research department reported to the president in an advisory capacity. Under the treasurer there were four departments. The real estate department sought and investigated locations for new stores, made preliminary negotiations for leasing properties for new stores, planned and estimated the costs of alterations and fixtures required, supervised the preparation of the stores for use, and, with the assistance of the merchandise division and the district manager, ordered the

merchandise for the stores' initial stocks; new stores were under the control of the real estate department until opened. The legal department completed negotiations for leases, drawing up the actual leases and contracts. It also handled all other legal matters of the company. The accounting department carried on all the company's auditing and accounting, comprising records of purchases, sales, and expenses. This department also prepared budgets, including the preliminary sales and stock quotas for each department in each store, as well as the budget for the whole company. The office management department supervised the

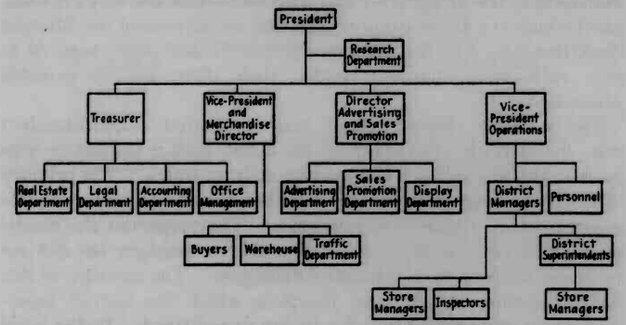

EXHIBIT 1.—Haymarket Company. Chart of organization in 1929.

operation of the central offices and purchased and distributed supplies for the central office and the individual stores.

The activities of the vice president in charge of merchandise included direction of the company's 20 buyers, traffic management, the operation of the company's warehouse, and the preparation of lists of merchandise that each store was required to have in stock. The advertising and sales promotion department, with the assistance of the merchandise department, selected items to be advertised and displayed in the stores, prepared the copy for newspaper advertisements, and by means of letters instructed store managers regarding store and window displays.

The managers of the three districts reported directly to the vice president in charge of operations. The district managers were responsible for every phase of operation of the stores in their districts. In one district the manager was assisted by two district superintendents, each having about 25 stores which he

visited several times a year. The district superintendents checked store stocks for completeness in relation to the list of merchandise required, checked the office work in the various stores, approved mark-downs taken by the store managers, and recommended other mark-downs to be taken. They also recommended minor changes in layout, gave special attention from a merchandising standpoint to stores or departments that were not being operated successfully, advised the store managers regarding store and window displays, supervised personnel operations in the stores, supervised the taking of inventories, and aided the store managers in the preparation and revision of sales and stock quotas, particularly the distribution of sales and stocks among the different departments. The district superintendents also were required to rate each store manager under their direction for possible promotion.

In another district there was 1 district superintendent who directed the activities of 20 stores, and 2 inspectors who periodically visited each of approximately 15 stores. The primary duty of the inspectors was to see that the stores had complete assortments of required merchandise. They reported the results of the merchandise check-ups to the district manager but did not have any authority over the store managers. The manager of this district carried on the other functions which the district superintendents were responsible for in the first district. In the third district, there were three inspectors but no superintendents.

All the executives' functions and duties described above, except those of the district executives, were centralized in the Chicago office. In view of the expected expansion of the Haymarket Company it was proposed to divide the functions of the company into administration, or record keeping, and operation. The suggested new organization of the Haymarket Company was as shown in Exhibit 2. Under the president there would be two vice presidents, one in charge of administration and the other in charge of operations. Three departments, finance and legal, accounting, and standards, would be under the direction of the vice president in charge of administration. Four departments, buying, sales promotion, real estate, and special divisions, would be under the vice president in charge of operations. The personnel department also would be subordinate to the latter vice president.

The finance and legal department, under the direction of the company's secretary, would be concerned with corporate financial

and legal activities. Office management also was to be placed under the finance and legal department. The functions of the accounting department would be auditing, general accounting, recording of expenses, budgetary operations, and statistics. The functions of the standards department would include research, planning, and the setting of budgetary standards. The personnel department would report in an advisory capacity to the vice president in charge of operations. The buying department would concern itself with buying, traffic management, merchandise records, and warehouse operation. The sales promotion depart-

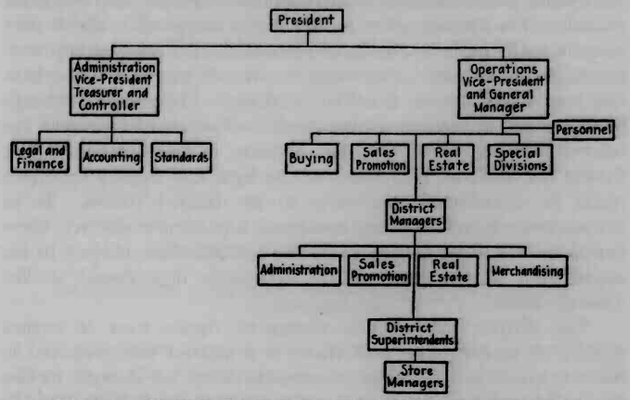

EXHIBIT 2.—Haymarket Company. Chart of proposed organization.

ment would direct all publicity activities, such as newspaper advertising and store and window displays. The functions of the real estate department would not be changed. The special divisions department would supervise the operation of the company's newly-established ready-to-wear departments and cafeterias. The ready-to-wear departments already had sales of approximately $500,000 a year.

It was proposed also that many of the duties which were centralized in the Chicago office be transferred to the district offices, so that in each district there would be an organization similar to that of the Chicago office. Each district was to have a district manager and four district superintendents, each with 25 stores under his direction. The responsibilities of the district

manager would remain unchanged; he would still be responsible for all phases of operation of the stores in his district. The district superintendents, however, were to replace the inspectors. In each district office there would be four advisory positions, namely, administration, merchandising, sales promotion, and real estate. The persons occupying these positions would be representatives of the corresponding divisions in the Chicago office but would be responsible to the district manager.

In addition, it was proposed to decentralize the keeping of store records of purchases, sales, mark-downs, inter-store and inter-department transfers of merchandise, expenses, and condition of cash. The Chicago office merely would recapitulate the district records, make periodic checks on operations, and suggest improvements in the system. Payments to manufacturers for merchandise would be made by the district offices. The person in charge of this phase of activity in the district office would represent the interests of the administration division in the Chicago office. It was not believed that many of the legal and finance functions could be transferred effectively to the district offices. In so far as research and planning concerned a particular district, these functions would be carried on by the district office, subject to the supervision of the head of the standards department in the Chicago office.

The district merchandise managers' duties were to review the list of merchandise that stores in a district were required to have in stock and to make recommendations for changes in this list, to maintain mark-up at quota, to control mark-downs, and to direct the stores on all phases of merchandising. Since the company believed that it should retain the advantages of centralized buying, no change in the company's buying policy was contemplated. The district merchandise managers, however, could make recommendations to the buyers relative to demands peculiar to their districts.

In regard to the real estate department, it was proposed that the three real estate scouts, who had their headquarters in the Chicago office, be transferred to the district offices. These scouts measured the sales possibilities of cities under consideration for new stores, estimated the costs of alterations, and carried on preliminary negotiations for leases. The real estate department in the Chicago office, however, would continue to make final decisions as to whether or not new stores were to be established.

The district offices would prepare the lists of merchandise to be placed in a store for its opening.

The sales promotion manager in each district would prepare calendars of selling events to be held in his district. He also would prepare the advertising copy for the stores in his district. Under the sales promotion manager there would be a display man to arrange for store and window displays.

The number of reports and records passing through the Chicago office had enabled the company for the most part to secure effectiveness through specialization, although at times the great amount of detail had resulted in confusion, loss of reports, and delay. The most important advantages of decentralization were thought to lie in the possibility of better supervision of operation, and the creation of positions toward which employees of the company could look for promotion.

Should the Haymarket Company have adopted the proposed plan of organization?

9. SEARS, ROEBUCK & COMPANY (D)

MAIL-ORDER COMPANY—ORGANIZATION FOR RETAIL DISTRIBUTION

In 1925 Sears, Roebuck & Company, the largest mail-order company in the United States, entered the field of over-the-counter selling by opening retail department stores. By 1929 the company was operating 10 mail-order branches and 295 retail stores. Each mail-order branch served an allotted territory, known as a mail-order district. The company's main mail-order warehouse and its central offices were in Chicago. The organization operating the retail store division, which was built around the mail-order organization as a nucleus, was still being changed in 1929; but apparently a definite decision had been reached that the retail organization should be subordinate to the mail-order organization.

The mail-order organization was as follows: At the head was the president, and directly under him were two vice presidents, a general merchandise manager, an advertising manager, and ten managers of mail-order branches. The president acted as general manager; one vice president was in charge of operations, and one

acted as the treasurer and auditor in charge of accounting. Under the latter vice president was a mail-order accountant and under him a credit manager. The general merchandise manager was assisted by six merchandise supervisors, each responsible for a group of departments and the buyers for those departments. All advertising for the mail-order division was done by the Chicago office. The manager of each mail-order branch was assisted by a district operating superintendent, a district auditor, and a district merchandise manager. The functions of these three officers corresponded to those of the vice president in charge of operations, the vice president who was also treasurer and auditor, and the general merchandise manager, respectively. In addition, these branch office men were expected to work with the officers in the Chicago office whose positions corresponded to their own.

Under each district merchandise manager were six assistant district merchandise supervisors, and as many reorder men as there were buyers in the Chicago office. The assistant district merchandise supervisors worked with the corresponding merchandise supervisors in the Chicago office in the control of the groups of departments for which they were responsible, an assistant district merchandise supervisor being particularly interested in the condition of, and the demand for, merchandise in his departments in his branch. Each merchandise supervisor was expected to coordinate the work of the ten district assistants and consider their problems from the standpoint of the company as a whole; similarly, a department buyer in Chicago and the reorder men for the same department in each of the ten branches cooperated in the operation of the department. All buying was done by the buyers in the Chicago office, although it sometimes was done at the recommendation of a reorder man.

To operate its retail stores Sears, Roebuck & Company set up an organization parallel to the mail-order organization and functionally responsible to it. A general manager of retail stores was appointed in the Chicago office; he was directly responsible to the president and was assisted by a retail advertising manager, a retail operating superintendent, and a retail credit manager. The functions of these three men in operating the retail stores corresponded to those of the advertising manager, the vice president in charge of operations, and the credit manager for the company as a whole. The retail store accounting, however, was not placed under the general manager of retail stores; instead, it was placed

under the vice president who was also auditor; thus this vice president controlled two accounting divisions: one for retail store accounting and one for mail-order accounting.

The central office merchandise organization for the retail stores was under the direction of a general retail merchandise manager who was responsible to the general merchandise manager but who was expected to work with the general manger of retail stores in matters of general policy concerning the operation of the retail stores. Under the general retail merchandise manager were six assistant retail merchandise supervisors, each of whom was to cooperate with the merchandise supervisor for the corresponding departments, as did the assistant district merchandise supervisor. Likewise, the assistant retail merchandise supervisor was to consider the problems of the departments in relation to the stores, as the assistant district merchandise supervisors in the mail-order organization considered them in relation to the mail-order districts.

Since the retail organization was not expected to do any buying, it had no representatives in the Chicago office corresponding to the buyers in the mail-order organization. The executives believed that the trained mail-order buyers would be better able to carry out the buying function than would a newly organized retail organization. The retail organization was expected, however, to analyze the merchandise sold in the retail stores and to advise the mail-order organization as to the purchase of new items and the general merchandising of the retail stores.

With the growth of the retail stores, there arose the need for closer supervision than could be given by the Chicago office. Accordingly, in each mail-order district a retail organization was set up in charge of a regional retail manager, who was concerned with the retail stores located in the territory comprising that mail-order district. In this way the retail store regions were made to correspond to the mail-order districts. Each regional retail manager was directly responsible to the mail-order branch manager but was expected to cooperate with the general manager of retail stores in matters of retail policy. Each regional retail manager was assisted by a regional retail advertising manager, a regional retail auditor, store managers, and assistant regional retail merchandise supervisors. Each assistant regional retail merchandise supervisor cooperated with the assistant retail merchandise supervisors in the Chicago office and also with the

assistant district merchandise supervisor in the mail-order organization concerning problems affecting his region. The regional retail advertising manager planned the advertising for the retail stores in his region. Each store in the region was expected to cooperate with him by displaying merchandise when it was advertised. Advertising for the various stores was done in common whenever two or more stores could be served by one medium. The work of the regional retail advertising managers was coordinated by the retail advertising manager in the Chicago office.

The accounting for the retail division was carried on under the regional retail auditor in the regional office except for the preliminary operations, which were carried out in the individual stores. The regional retail auditors worked with the retail store accounting division in the Chicago office, under the vice president and treasurer, and were also responsible directly to the vice president in his capacity as auditor.

Each store manager was assisted by a store operating superintendent and a store merchandise manager. The store operating superintendent worked both with the district operating superintendent and with the retail operating superintendent in the Chicago office. The store operating superintendent was in charge of such functions as personnel, expense control, pay roll, cash register control, delivery, display, credit, and accounting. He was assisted by a store accountant and a store credit clerk. The store merchandise manager was assisted by a head of stock for each selling department. The work of all store merchandise managers in a territory was coordinated by the district merchandise manager of the mail-order branch; coordination of all the company's stores was in the hands of the general retail merchandise manager. The heads of stock, who were expected to keep merchandise on hand and to promote its sale in each store, worked with the mail-order division through their respective assistant regional retail merchandise supervisors.

In general, Sears, Roebuck & Company did not extend credit on open book accounts. It did, however, offer installment terms on certain items. It was the duty of the credit clerk in each store to fill out a customer's application blank and mail it to the district credit manager of the mail-order house of that territory, who, in turn, approved or refused the credit. Each district credit manager was under the district auditor, as the credit manager in the Chicago

office was under the central mail-order accounting department. This credit manager coordinated the functions of the ten district credit managers. The store accountant performed only the preliminary operations, sending his reports to the regional retail

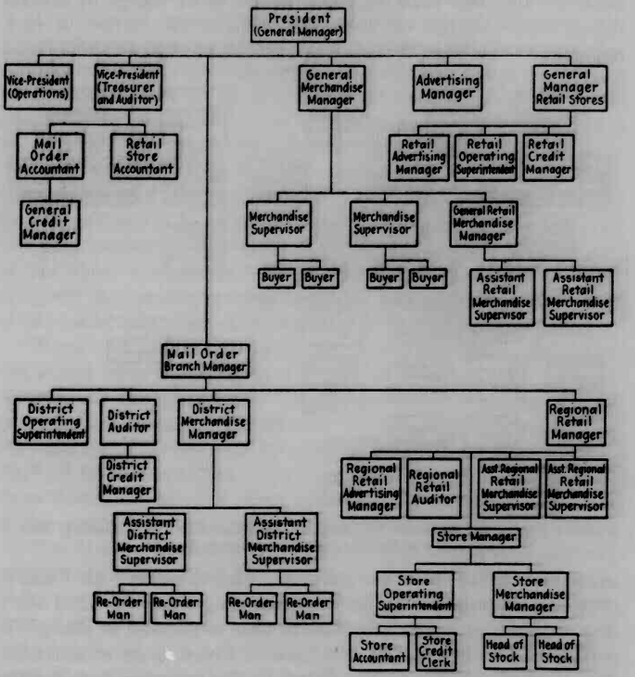

EXHIBIT 1.—Sears, Roebuck & Company. Organization chart showing lines of direct authority.

auditor. The lines of direct and functional authority for the mail-order organization and the general plan for the store organization were as shown in Exhibits 1 and 2. In the interests of simplicity, only one mail-order branch and one retail store are shown. Likewise only two merchandise supervisors and four buyers and two heads of stock are included, the additional units being duplications of those shown. Exhibit 2 shows only those lines of authority which are in addition to those shown in Exhibit 1.

The Class A stores followed the described organization very closely. In Class B stores, however, while the functions still remained, often one man performed several. For instance, a store manager was both merchandise manager and operating superintendent, and the head of stock might be in charge of several departments instead of only one. The stock carried in each department of a Class B store was fixed, an ideal stock having been

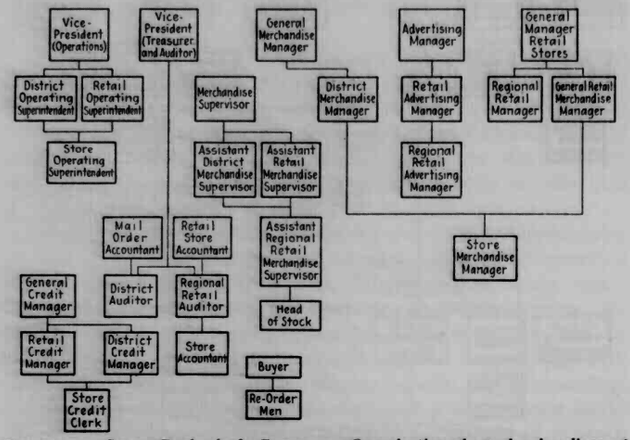

EXHIBIT 2.—Sears, Roebuck & Company. Organization chart showing lines of authority in addition to those shown in Exhibit 1.

set up when the store was opened. The reordering for Class B stores was automatic in this case excepting when the ideal stock was changed, as it was from time to time to respond to changes in consumer preferences. In the Class A stores, some merchandise was stocked which was not listed in the company's mail-order catalogue. This merchandise was purchased by the regular buyers, however, although the retail organization did indicate what merchandise should be stocked.

10. PARLIN COMPANY

DEPARTMENT STORE CHAIN—ORGANIZATION FOR EXPANSION

The Parlin Company operated three department stores located in outlying shopping centers of a large eastern city. All its stores

were several miles from one another and also from the downtown shopping district. In November, 1927, when the company decided to open additional department stores in the city the general manager submitted a new plan of company organization, which he believed was suitable for controlling any number of stores.

The Parlin Company sold merchandise of low-medium grade. Although price was considered to be important, the company also emphasized style; its selling appeal was summarized in the phrase "style at low price." Each of the three stores catered mainly to people of the middle and lower income classes. Each store sold a full line of department store merchandise in its 85 departments, operated a public cafeteria, and maintained a bargain basement selling apparel of all types and yard goods. Sales per store ranged from $5,000,000 to $9,000,000. Of the total merchandise sold, the company estimated that 90% could be sold equally well in any of the three stores, not being affected by variations in local demand; the remaining 10%, however, was specialized according to the racial and other characteristics of the different localities.

When this problem arose in the Parlin Company, six major executives were reporting to the general manger, who, in turn, reported to the president. These executives were the general merchandise manager, the director of personnel, the controller, the director of service, the property manager, and the treasurer. Each of these executives supervised his sphere of activity in all three stores, and all were on an equal plane of authority. A chart of the company's organization was as shown in Exhibit 1.

The division headed by the general merchandise manager was responsible for planning and executing merchandising operations, including buying and selling activities. Buying activities were defined as the selection of merchandise by analysis of demand and by analysis of local, domestic, and foreign markets; making contracts for the purchase of merchandise; pricing; stockkeeping, including storing, conservation, and maintenance of adequate reserves of merchandise; purchase routing; draying; claim adjusting; inventory control; and checking, marking, and dispatching merchandise to the various stores. The general merchandise manager's division was responsible also for advertising, display, and customer transactions. Advertising included the responsibility for having advertised merchandise on hand and the responsibility for store decoration, as well as for newspaper and direct mail advertising and window displays. Display pertained to

interior display, including the display of regular merchandise in the various departments and the display of merchandise offered at bargain prices. Customer transactions included actual selling by personal contact, mail, or telephone, and also the making of alterations.

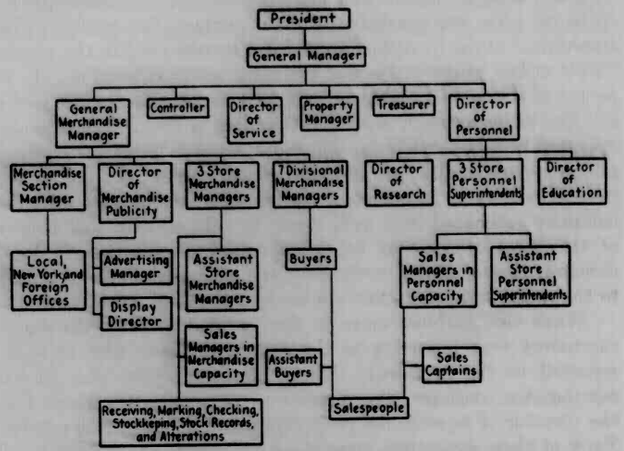

EXHIBIT 1.—Parlin Company. Chart of organization, November, 1927.

Under the general merchandise manager were four divisions, headed respectively by the merchandise section manager, seven divisional merchandise managers, the director of merchandise publicity, and three store merchandise managers. The merchandise section manager supervised the clerical forces of the local, New York, and foreign buying offices, including the transportation and comparison clerks and the order dispatcher.

The divisional merchandise managers were looked upon by the management of the Parlin Company as virtual owners of their divisions, and their responsibilities were assigned accordingly. Each divisional merchandise manager was responsible to the general merchandise manager for the performance of his division in all respects. Each of the seven divisional merchandise managers was assigned to one of the following classifications of merchandise:

1. Men's and women's ready-to-wear apparel.
2. Men's and women's shoes and accessories.

3. Yard goods, dry goods, and notions.
4. Furniture, rugs, and lamps.
5. Home equipment, including radio sets, phonographs, and large electrical appliances such as vacuum cleaners and washing machines.
6. House furnishings, including draperies, china, and such small electrical appliances as percolators and toasters; drugs, cosmetics, and drug store notions; miscellaneous, including jewelry, toys, and cafeterias.
7. All types of merchandise sold in the bargain basements.

Under the merchandise managers were the buyers, of whom there were approximately 60. Each of them bought the full line of merchandise for one department and sometimes for two or more departments in all three of the Parlin Company's stores. Each buyer was responsible to the divisional merchandise manager of his department or departments both for buying and for selling. The buyer was, in effect, the department manager, being held responsible for the rate of stock-turn, mark-downs, maintained mark-up, gross margin, and net profits. The buyers superintended the activities of the salespeople and made recommendations for hiring and discharging, but the personnel department had the final decision and assumed the major share of responsibility for salespeople, salaries, and commissions. In addition to maintaining contacts with the markets, the buyers were expected to keep in touch with their departments in each of the Parlin Company's three stores by making frequent visits. Each buyer had three assistant buyers, one for each store. The assistant buyers acted as the buyer's representatives in his absence and were expected to keep him informed of local developments.

The director of merchandise publicity was the head of the third division under the general merchandise manager. He superintended the activities of the advertising manager and of the display director and regulated the advertising budget. After the annual advertising budget had been determined in conference with the controller, the director of merchandise publicity was responsible for putting it into effect.

The store merchandise managers supervised the receiving, marking, and checking of merchandise, the keeping of stock records, and the making of alterations. Under each of the store merchandise managers was an assistant store merchandise manager, who was the store merchandise manager's local representative; and several merchandise sales managers, whose duties were to insure the proper display of merchandise and to see that

the merchandise was properly taken care of while it was under the supervision of the store merchandise manager. The department buyers were expected to follow any suggestions of the merchandise sales managers which they thought were of value.

Among the duties of the division of personnel control, at whose head was the director of personnel, were the employing and training of the personnel of the company; the superintending of floors, which embraced such functions as collecting want slips, reporting on the amount of business, checking time records and passes, and paying employees; and the supervising of the personnel, which included assigning duties to salespeople and clerks, making transfers, settling complaints, and enforcing discipline.

Under the director of personnel were the director of research, the director of education, and three personnel superintendents. The personnel superintendents supervised the activities of the personnel sales managers, whose duty was to maintain discipline among the salespeople.

The control division had a variety of duties. Among these was the planning and supervision of store performance with respect to budgets. In addition, the division compiled and presented statistics; kept the stock accounting system; exercised unit and dollar control over merchandise; and planned, installed, and enforced store procedure. To perform these duties, at the head of the control division was the controller, assisted by the chief accountant, the merchandise controller, the general credit manager, and three store credit managers.

The service division planned and executed the service functions, which were those of delivery, purchase of supplies, collection of shopworn or out-of-season merchandise from the various departments, and operation of the store post office and telephone booths. The division was headed by a director of service. Under him were the traffic managers, the purchasing agent, and the delivery superintendent, assisted by three store delivery managers and three store service managers. The store service managers supervised the activities of such clericals as the packing clerks, the supply clerk, and the head cashier in each store.

The fifth division was headed by the property manager, who was responsible for the condition of owned and leased property. Included in this division were the store engineers, the maintenance managers, and all personnel devoted to the upkeep of the physical properties of the stores.

The sixth and last division was headed by the treasurer, who was charged with planning and executing the financial operations of the company.

The Parlin Company had adopted this organization in 1924, with a view to making the divisional merchandise managers the theoretical owners of their branches of the business. Under this plan the divisional merchandise managers were expected to take the ownership point of view and thus to feel themselves responsible for everything under their jurisdiction. Although the plan in most instances had proved satisfactory, certain difficulties had arisen, of which the most important was a result of the many duties imposed upon the buyers. In order to discharge their duties effectively, the buyers had found it necessary to make several visits a week to each store. Because of traffic congestion much of the buyers' time was spent in travelling between stores. Although the buyers were represented by the assistant buyers, whose position has been created in order to give the buyers more time for buying, in practice the Parlin Company had found that the buyers tended to ignore advice or suggestions submitted by assistant buyers, and to attempt themselves to keep directly in touch with local conditions. This situation undermined the morale of the assistant buyers and led them to devote themselves to routine duties to the neglect of gathering information which might be of aid to the buyers.

These difficulties had not been considered sufficiently important to warrant a change in the company's organization prior to 1927, but toward the end of that year the situation was aggravated by the company's decision to open a fourth department store in the near future, and additional stores later as circumstances might warrant. The Parlin Company took under advisement, therefore, the form of organization suggested by the general manager, a chart of which was as shown in Exhibit 2.

In the plan presented by the general manager the functions of the treasurer, the property manager, the director of personnel, the controller, and the director of service were practically the same as under the old form of organization. A radical change was made in the merchandise division, however. In place of the general merchandise manager, who under the existing plan supervised both buying and selling, a merchandise manager of buying and a sales manager were provided for, the former to supervise buying, and the latter to supervise selling. Seven

divisional merchandise managers, equal in authority to the merchandise manager of buying and to the sales manager, were to coordinate buying and selling activities and to act as virtual owners of the divisions which they supervised. The divisions called for in the plan were the same as those of the existing organization.

The function of the proposed buying division was to secure merchandise. That division would be expected to know the sources of supply, the various types and styles of merchandise

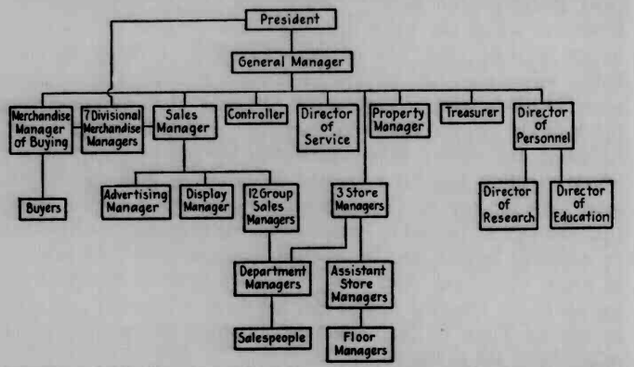

EXHIBIT 2.—Parlin Company. Chart of organization proposed by general manager.

placed on the market by manufacturers, and the prevailing price ranges and trends. The selling division was to requisition merchandise from the buying division, its responsibility being to order the type and style of merchandise which consumers would purchase. The sales manager was required to transmit to the buying division such style information as he could gather from customers and from periodicals, but the responsibility for the style of merchandise purchased would rest with the buying division.

Under the proposed plan both the merchandise manager in charge of buying and the sales manager were responsible to the general manager of the company; the divisional merchandise managers, because of the heavy duties of the general manager, reported to the president. In practice, however, it was expected that they would make frequent informal contacts with the general

manager. The merchandise manager would be a superior officer of all buyers and would supervise the buying of merchandise for the company.

The sales manager was to be the head of the selling organization. Under him were 12 group sales managers, the display manager, and the advertising manager. Each of the 12 group sales managers provided for in the new plan was to be in charge of one of the following groups of merchandise:

1. Women's ready-to-wear apparel.
2. Men's ready-to-wear apparel.
3. Men's and women's shoes.
4. Apparel accessories.
5. Yard goods.
6. Dry goods and notions.
7. Furniture, rugs, and lamps.
8. Radio sets, phonographs, and large electrical appliances such as vacuum cleaners and washing machines.
9. House furnishings, including draperies, china, and such small electrical appliances as percolators and toasters.
10. Drugs, cosmetics, and drug store notions.
11. Miscellaneous, including jewelry, toys, and cafeterias.
12. All types of merchandise sold in the bargain basements.

Reporting to their respective group sales managers on such merchandising activities as the requisition and display of merchandise, were the department managers. The department managers, one for every department of each store, also would have non-merchandising duties, such as those of maintaining discipline in the salesforce under them, floor stockkeeping, supervising department and inter-store transfers, and enforcing store procedure. For the performance of these duties the department managers would be responsible to the store managers and not to the group sales managers. It was expected that, for the most part, department managers would be recruited from the assistant buyers in the old organization.

In the general manager's plan of organization, each group sales manager was the promotional head of his particular line of merchandise. He acted as an intermediary between the department manager and the buyer for the department, transmitting to the latter any merchandise information which the department manager reported to him. He also coordinated the selling efforts of his departments and saw to it that prices were uniform for

corresponding merchandise in all three stores. Among other things, he consulted with his department managers on the timeliness and appropriateness of their promotional efforts and worked with the publicity division in planning and advertising sales and other special events. His proposed duties in detail were as follows:

1. To initiate such sales policies as applied within his particular group.
2. To determine, subject to the approval of his divisional merchandise manager, sales manager, and merchandise manager of buying, the classes of merchandise to be handled in his departments and the price ranges within each class.
3. To determine the proper quantity, style, size, and price of merchandise.
4. To work out, with the sales manager and the divisional merchandise manager, sales estimates.
5. To compare actual results with the budget, to account for discrepancies, and to suggest changes.
6. To plan for special departmental sales events with the sales manager, the divisional merchandise manager, and the department manager; to help them to coordinate these with the general sales policies and calendar of the store.
7. With the sales manager, to determine the amount of publicity to be used for special events and the character of advertising layout; to determine the proper expenditure for publicity for his group.
8. To initiate requests for advertising or display of merchandise.
9. To approve requisitions for departmental merchandise advertising initiated by department managers; to write or approve the advertisements.
10. To keep in touch with the sources of supply, recommend them, and advise the merchandise manager about opportunities of obtaining merchandise particularly suited to group needs.
11. To coordinate the work of department managers in his group.
12. To confirm department managers' merchandise requisitions.
13. To supervise the selling activities of the rented departments in his group so that they conformed with the merchandising policies of the store.
14. To originate requests for demonstration and to contract for it with the approval of the divisional merchandise manager.
15. To insure the dispatch to the various stores of incoming merchandise.
16. To conserve department merchandise; to prevent physical loss and deterioration and the loss of market value.
17. To notify department managers in advance of all special selling events.
18. To originate all price revisions on merchandise within his group, subject to the approval of the divisional merchandise manager.

A department manager was to send merchandise requisitions to his group sales manager, who, if he approved them, would send them to the buying division. If the department was overbought, the group sales manager was to send the requisition to the divisional merchandise manager for final rejection or approval. The buying division would be required to fill all approved requisitions. In detail the department manager's duties were as follows:

1. To requisition merchandise.
2. To train salespeople and stock clerks, with the help of the training department and the store manager, in merchandising policy and system; to carry on sales promotion work.
3. In conjunction with the floor superintendent, to exercise control over the salespeople.
4. To check the merchandise which the stock clerk brought in, for quantity, quality, correctness of marking, and readiness for sale.
5. To ascertain that the merchandise was in a salable condition.
6. To gauge the amount of local stock needed in order to satisfy demand.
7. To advise the group sales manager as to the nature of local demand.
8. To watch slow-moving merchandise and recommend mark-downs, P.M's, or special sales promotion programs to the group manager.
9. To inspect his department.
10. To keep records of mark-downs, sales, inventory, and turnover.

In the proposed organization there were three store managers, who were responsible to the general manager of the Parlin Company. They coordinated store control, service, property management, and personnel work. An additional duty was to see that the broad general policies of their respective stores conformed with the character of the neighborhoods in which the stores were located. Under each store manager was an assistant store manager, to whom the floor managers reported. Each store was to have two floor managers, one for the first floor and the other for the remaining floors.

The divisional merchandise managers would be expected to coordinate the activities of the buying and selling divisions and to settle any disputes which might arise between them. It was their duty to see that merchandise of the correct types and styles was requisitioned and bought, and that it was effectively displayed when placed on sale. The divisional merchandise managers were expected to know the viewpoints both of suppliers and of consumers, and to act as a check on the activities of the buyers and of the department managers for their respective divi-

sions. In addition, each divisional merchandise manager in so far as his own departments were concerned was responsible for net profit; for the asset or resale value of the merchandise in stock, including its proper physical condition, style, age, and price; for mark-downs; for all expenses; for reducing shrinkage by seeing that department managers were following the proper procedure in taking mark-downs and were active in checking sales and receipts of departments; for seeing that the controller was accurate in making charges and credits to the divisional merchandise manager's departments; for making plans for his departments; for allocating the responsibility both for merchandise failures causing mark-downs and for failure to stock the proper type of merchandise for sale. Technically, the buying division was responsible for stocking the proper type of merchandise. Upon appeal to the divisional merchandise manager in charge, however, a failure in this respect might be ascribed to the laxity or error of the sales division in supplying the buying division with style information.

Under the proposed plan of organization, an additional check on the performance of each floor was provided by the floor managers. Their position was analogous, on a narrower plane, to that of the store manager. The floor managers supervised customer service, the salesforce, and the physical condition of the departments on their floors. The floor managers reported to the assistant store managers but also were expected to keep in intimate contact with the department managers. In more detail, a floor manager's duties were:

1. To stimulate the sales of all the departments on his floor.
2. To maintain and develop working personnel.
3. To see that department managers functioned properly.
4. To handle customers' adjustments, exchanges, and other matters which were outside the scope of the department manager's authority.
5. To introduce new personnel into the department.
6. To supply extra personnel.
7. To discipline salespeople and stock clerks for violation of store policy and requirements.
8. To arrange for overtime work.
9. To report absentees to the employment office.
10. To check and turn in time cards.
11. In conjunction with the department manager and the unit control department, to watch merchandise shrinkage.
12. To make a daily inspection of each department on his floor, including inspection of physical equipment, display of bargain stock, and lighting.

The general manager's plan required each department to be operated on a weekly departmental open-to-buy report. The weekly departmental buying budget divided the open-to-buy report into three parts. Budget A was the amount open-to-buy for the regular lines and types of merchandise sold in the department; Budget B was promotional and consisted of the amount open-to-buy for special events; Budget C was experimental and was the amount open-to-buy for new styles or types of merchandise. The relative amounts to be allocated to each budget varied widely in different departments. In departments selling staple merchandise, Budget C might be omitted; in departments in which fashion was of primary importance, on the other hand, Budget C might include the major part of the total budget. The responsibility for keeping within Budget A and in most instances for keeping within Budget B was placed in the selling division; the buyer, however, was responsible for seeing that Budget C was not exceeded.

Purchases of merchandise under Budget A always would be made in response to requisitions from the selling department. Merchandise bought under Budget B usually would be requisitioned; but, if a buyer believed he could make an exceptionally favorable purchase, he might take the initiative as well as the responsibility in buying the merchandise. Purchases of merchandise under Budget C never would await requisitions; the buyer would have full control and responsibility.

The responsibility for mark-downs caused by faults in the quality or style of merchandise rested with the buyers. The responsibility for mark-downs caused by lack of sales effort or poor display lay with the group sales manager or the department manager in charge. The divisional merchandise manager would be the arbitrator in case of dispute, and his decision would be final.

Under the new plan, the control division exercised statistical and budgetary control over store activities; the service division was responsible for the service which the company provided for its customers; the property division acted in the capacity of a landlord and was responsible for the profitable utilization of floor space; the treasurer's division was responsible for obtaining the highest possible return on invested capital; and the seven divisional merchandise managers cooperated with the other divisions of the organization in making plans, and superintended the carrying out of the plans.

Should the company have adopted the proposed form of organization?

11. HAHN DEPARTMENT STORES, INC.

DEPARTMENT STORES—FORMATION OF CHAIN

In retail business the year 1928 was characterized by widespread interest in department store mergers. One of the most notable of these, the Hahn Department Stores, Inc., was announced on December 11, 1928. Twenty-seven stores operated by 22 firms and located in 25 different cities were included in this consolidation.

Total sales of these stores in 1927 amounted to $108,000,000. Their annual net profits for the three-year period, 1925, 1926, 1927, averaged over $6,000,000. At the time of the merger, combined total assets were $51,924,000, with current assets of $34,666,000; and current liabilities were $8,222,000. Goodwill was valued at $1. In the announcement of the merger it was stated that this group was the nucleus around which a larger organization, expected eventually to have sales of $1,000,000,000, would be developed.

The authorized capital structure of the Hahn Department Stores, Inc., consisted of $60,000,000 of preferred stock and 5,000,000 shares of no par value common stock. Twenty-three million dollars of 6½% cumulative convertible preferred stock and 1,284,000 shares of common stock were issued. The preferred stock was offered at 103 and accrued dividends, and the common at 38. Market quotations for these stocks on January 5, 1929, were 112⅜ and 54 respectively.

The individual stores were to retain their identities and were to be operated by their former officers. General control of the corporation was in the hands of a board of directors composed of the presidents of the individual companies. Mr. George W. Mitton, president of the Jordan Marsh Company, of Boston, was chairman of the board, while Mr. Lew Hahn, formerly managing director of the National Retail Dry Goods Association, was president of the corporation.

Among the organization problems to which it was necessary to give attention were the following: What functions should be performed centrally? What functions should be controlled centrally? To what extent should there be central supervision

of other functions? What organization should be provided for each of these three groups of tasks? What should be the relation of this organization to the organizations of the individual stores? How would the latter organizations be affected by the central organization? What was a desirable type of store organization for a department store belonging to such a combination as this? What comparative information in the way of statistical, accounting, or other reports would the central organization need to have submitted by individual stores? What types of reports should the central organization send to individual stores?

Early in 1929 the Hahn Department Stores, Inc., opened a central office in New York City. In this office it was tentatively decided to have five functional directors, as follows: (1) Director of Merchandising Operation, who was to be familiar with modern principles of merchandising; (2) Director of Sales Promotion, who was to supervise the sales direction and advertising; (3) Director of Market Operation, who was to be familiar with markets in the United States and abroad, and who was to understand the control of central buying; (4) Director of Fashion Bureau, who was to relate buying and selling to fashion tendencies; and (5) Director of Store Management, who was to bring engineering ability to the operation of the store buildings.

The initial group of firms included in the Hahn combination was as follows:

Firm	Location
Jordan Marsh Company	Boston, Massachusetts
C. F. Hovey Company	Boston, Massachusetts (owned by the Jordan Marsh Company)
L. S. Donaldson Company	Minneapolis, Minnesota
The Bon Marché	Seattle, Washington
The Golden Rule	Saint Paul, Minnesota
The Rollman & Sons Company	Cincinnati, Ohio
Herpolsheimer Company	Grand Rapids, Michigan
Titche, Goettinger Company, Inc.	Dallas, Texas
O'Neill & Company, Inc.	Baltimore, Maryland
Quackenbush Company	Paterson, New Jersey
The A. Polsky Company	Akron, Ohio
The Morehouse-Martens Company	Columbus, Ohio
The Welber Company	Columbus, Ohio
The James Black Dry Goods Company	Waterloo, Iowa
Rudge & Guenzel Company	Lincoln, Nebraska
The Meyer's Company	Greensboro, North Carolina
The L. H. Field Company	Jackson, Michigan
F. N. Joslin Company	Malden, Massachusetts
The Muller Company, Ltd.	Lake Charles, Louisiana
A. E. Troutman Company	Greensburg, Pennsylvania (operating five additional stores)
Louis Samler, Inc.	Lebanon, Pennsylvania
Wright-Metzler Company	Connellsville, Pennsylvania

Later some additional firms were acquired, including Joske Brothers, in San Antonio, Texas, and Maas Brothers, in Tampa, Florida; and one store, the Welber Company, in Columbus, Ohio, was sold.

The stores varied in size from the Muller Company, Ltd., with sales of $875,000, in a city of less than 25,000 population, to the Jordan Marsh Company, with sales reputed to be considerably over $35,000,000, located in a trading center serving more than 2,000,000 people. While there seemed to be considerable diversity in the grades of merchandise handled by some of these stores, most of them carried merchandise of medium and medium-high grade. The president stated that he believed the stores were no more diversified than were the departments of the average individual store.

During the drastic decline in the stock market in the fall of 1929 the preferred stock reached a low point of 71¾, and the common stock was quoted at 12. In January, 1930, Mr. Hahn estimated net earnings of the Hahn Department Stores, Inc., for the fiscal year ending January 31, 1930, at $4,000,000, or $1.80 a share on common stock, as compared with $6,033,488, or $3.22 a share, in the preceding year. At this time Mr. Hahn pointed out that the earnings for the year 1929 were computed after central office expense of $1,400,000, as against a similar deduction of $100,000 for the year 1928. Mr. Hahn attributed the decline in earnings to three factors: a general writing down of inventories for the purpose of improving the condition of the stocks and increasing the rate of stock-turn; abnormal central organization expense incurred in establishing proper control; and reconstruction processes necessary to conduct merged operations.

In a letter to stockholders Mr. Hahn explained in some detail the factors which had operated to reduce net earnings:

> In the initial financing of Hahn Department Stores, Inc., the probability of extraordinary charges in the first year of operation was anticipated and a reserve for contingencies of $3,265,786.30 was set up. Subsequently, January 31, 1929, $1,500,000 was added to this out of earnings accruing in the period from the dates of the purchase balance sheets of the various stores to January 31, 1929. Against this total reserve of $4,748,712.84 a sum of approximately $2,000,000 will have been employed to partially cover the abnormal cost of mark-downs necessary to clean merchandise stocks and also to cover the cost of fulfilling various legal and contractual obligations for services which are rendered unnecessary by the central office and were incurred by the stores under former ownership. This will leave a balance in this reserve of about $2,750,000. Although good accounting practice would justify a similar use of reserves to cover the unusual first organization expenses and abnormal central office charges, Management has preferred to meet such expenses out of current earnings.
>
> . . . . . .
>
> Hahn Department Stores, Inc., early in 1929 took over the ownership of 28 department stores which had been operating under independent management. These were good stores but of widely varying size and class. Under the policy of modern merchandising introduced by the central management stock clearances became necessary in order to eliminate old merchandise. Knowing that such unsatisfactory inventory conditions might exist due to the laxity of old-fashioned stock control methods, the substantial reserve referred to above was created and has been used sparingly.
>
> Management immediately set to work to bring these inventories into workable condition. Old merchandise does not improve with age and its presence in stock automatically decreases the operating capital available for the purchase of new and fashion-right merchandise. This stock cleaning necessitated heavy mark-downs; but the job has been done effectively as is evidenced by the fact that we will start our new year, February 1, 1930, with investment in merchandise more than one year old of less than 2% of our sales volume. With the cleaning of stocks we immediately set up a merchandise control which will prevent the recurrence of any such inventory condition. Our inventories as of January 31, 1930, will be six million dollars at retail less than at the beginning of the fiscal year with practically no decline in sales. Further work along this line in 1930 will result in additional reductions in inventories, at the same time improving the opportunity for increased volume by better balanced and assorted stocks.
>
> Accounting systems in all stores have been standardized and an expense control has been installed which already has resulted in substantial reduction of expense. The real effect of this work will begin to be realized in 1930.
>
> Efficiently manned buying offices have been established in New York and have been functioning since July 1st. In 1930 all merchandise orders, with the exception of those placed by our stores in their own communities, will go through the central buying offices. Group purchasing arrangements have been made from the development of which decided advantages will accrue to all stores.
>
> During the year The Bon Marché, Seattle, Washington, and Titche-Goettinger Co., Dallas, Texas, have moved into new store buildings which are among the finest in this country. These buildings permit large expansion in business which we believe will be promptly realized. The furniture and fixtures for these new buildings were financed out of current cash. A third new building is now under construction for our store in Akron, Ohio, the A. Polsky Company, which plans to occupy this new home in September, 1930.
>
> The sales for 1929 excluding the sales of undesirable departments which were discontinued will show a decrease of about 1% under 1928.

Sales for a number of unit stores are well ahead for the month of January, 1930, and it would appear, from the unaudited reports as of this date, that the sales for the group excluding those of discontinued departments will run substantially the same as January, 1929.

The company is in strong financial condition. The indications are that we shall have as of January 31st cash and marketable securities on hand of between $4,500,000 and $5,000,000 after having expended during the fiscal year approximately $5,250,000 for furniture and fixtures, purchases of the Company's own preferred stock and additional real estate now occupied by the stores, and after reducing our current loans $100,000 under the amount shown at January 31, 1929.

The net worth of the company will be substantially in excess of that in the May 31, 1928, balance sheet published at the time of the original offering of the securities . . .

What central organization should have been established for the Hahn Department Stores, Inc.?

What conclusions should be drawn from the experience of this combination during its first year of operation?

12. ROBINSON COMPANY

DEPARTMENTIZED SPECIALTY STORE—CONSOLIDATION OF A GROUP BUYING ASSOCIATION

In December, 1928, the Robinson Company, a women's specialty store with sales of about $3,000,000, located in a middle-western city, considered suggesting to the other stores of the group buying association of which it was a member that they form a chain of specialty stores. The growth of the J. C. Penney Company stores and the opening of over-the-counter retail stores by the large mail-order houses, Sears, Roebuck & Company and Montgomery Ward & Company, had indicated a trend toward chain operation in the department store field, while the recent announcement of the formation of the Hahn Department Stores, Inc., had suggested to the owners of the Robinson Company the possibility that it would be advisable for their store to enter such a chain.

The Mutual Research Association, the group buying association to which the Robinson Company belonged, was composed of ten specialty stores located in large cities in various parts of the country. One of the stores was owned by partners; the others were incorporated. In some cases all the capital stock of

the corporation was owned by one man. Four of the stores were on the Atlantic seaboard, four were in the Middle West, and two were in the western part of the United States. All the stores were located in the specialty store sections of the shopping districts in their respective cities, and each sold medium-price and high-price merchandise. All the stores carried similar merchandise, but some of the stores had fewer departments than others.

The departments common to all the stores were as shown in Exhibit 1. Other departments, such as shoes, millinery, and furs, were operated in from two to nine of the stores.

EXHIBIT 1

Departments Common to All Stores in the Mutual Research Association

Women's Dresses	Umbrellas
Misses' Dresses	Handkerchiefs
Women's Inexpensive Dresses	Neckwear
Misses' Inexpensive Dresses	Hosiery
Women's Coats	Gloves
Misses' Coats	Toilet Goods
Suits	Negligees
Knitted Apparel and Sportswear	Underwear
Sweaters, Waists, and Skirts	Glove Silk Underwear
Jewelry and Novelties	Slips
Hand Bags	Infants' Wear

Net sales, stock-turn, mark-downs, gross margin, and total expense for each store in 1927 were as shown in Exhibit 2.

EXHIBIT 2

Net Sales, Mark-downs, Stock-turn, Gross Margin, and Total Expense of Stores in Mutual Research Association, 1927

(Net Sales = 100%)

Store Number	Net Sales	Mark-downs	Stock-turn (Times a Year)	Gross Margin	Total Expense
1	$1,127,000	8.5%	4.0	38.1%	33.9%
2	1,151,000	7.5	5.7	35.9	26.9
3	2,515,000	7.2	6.6	36.5	31.9
4	2,543,000	8.5	6.9	38.2	28.2
5	2,627,000	6.0	3.6	38.7	30.4
6	2,642,000	7.0	6.2	37.9	30.0
7	2,800,000	6.5	4.7	37.2	31.8
8	2,871,000	8.2	6.8	39.0	31.4
9	3,055,000	10.7	4.9	38.0	34.5
10	3,091,000	8.5	4.2	39.1	31.7

The development of the Mutual Research Association from its inception in 1922 had been gradual but steady. The owners and officers of the stores comprising the group were convinced of the value of the association, since it offered to its members facilities for group buying and for the exchange of figures and of descriptions of practice. Through a subsidiary corporation it bought certain fashion merchandise to sell under its own private brand names. These goods it sold also to non-members if they were not in direct competition with members of the association. Each member was required to give to the other members all the figures which the association decided to exchange, as well as suggestions about any practice which had been found of value. About 65% of the work of the association was connected with merchandising, while the other 35% was in non-merchandising activities. Merchandising included the buying of merchandise and the exchange of merchandise information and statistics. A few of the expenses of the association were met by small annual fees; the rest were prorated to the stores according to net sales. For 1927 the association expenses of each member store amounted to less than 0.5% of its net sales.

In the Association's central offices in New York City an expert was maintained for each allied group of departments in the stores. These experts kept in touch with the markets, informing the individual stores of market trends and of new styles proposed by manufacturers. They made arrangements for displays of merchandise for buyers from the stores, and at times sent samples of new merchandise to the stores. In some instances they also bought goods for the more distant stores.

At least once a month buyers from the stores met in New York and after viewing the manufacturers' displays, as arranged by the New York office of the association, voted on the articles which they believed should be purchased. A committee of the buyers picked a few articles of merchandise from those which were most popular, and each buyer placed orders for these articles in such quantities as he believed his store could sell. Goods were purchased by the group for regular sale and also for special sales events. In general the ten stores followed similar policies with regard to special sales, which usually took place in all the stores at about the same time of year. The Mutual Research Association had two private brands, each of which applied to several lines of merchandise. About 25% of the stores' buying was done through the group.

Merchandise information was exchanged directly by the stores. Sales figures were reported daily, including sales for the day, sales for the corresponding day in the preceding year, sales to date for the current year and for the preceding year, and the percentage of increase or decrease for the day and for the year to date over the preceding year. Every week a letter was sent out by each store to the other stores, presenting a summary of the sales figures for the week, a list of the items which the store had found especially popular, and suggestions as to practices that had been tried by the store and had proved successful. Popular items were listed by style numbers, and some information was given about them. For instance, if Style No. 1593 in the misses' dress department of a store had been especially popular at a price of $39.50, that fact was noted in the weekly letter, along with the cost of the article and the name of the manufacturer. Special features, such as the design of decorations, the arrangement of departments, the reduction of prices on some line, or the use of special advertising emphasis or of some special promotional effort, were described in this letter, together with the results obtained from the special feature. When, for instance, one of the stores in a middle-western state had had especial success with a separate department for pajamas, it had described its experience in its weekly letter. Buyers and other officers in charge of the departments affected by the suggestions were provided with copies of each letter as it was received. During the following week, the buyers were questioned as to whether they had considered the suggestions, why each suggestion had been followed or rejected, and, in case of adoption, how successful it was proving.

Every month complete merchandise figures were compiled by each store; figures for sales, stocks, mark-downs, stock-turn, gross margin, and merchandise on order were listed for the month and for the season to date. Similar information was compiled for each department and summarized in two groups: (1) those departments common to all stores, and (2) those operated by less than the total number of stores. The figures for each store as a whole and for the departments were forwarded to the central office, where they were entered on the form shown as Exhibit 3 and then sent to each store. Separate figures from each of the ten stores, for a department or group of departments, were shown together in one horizontal section, the figures for each store being identified by the store's number. One section of the report

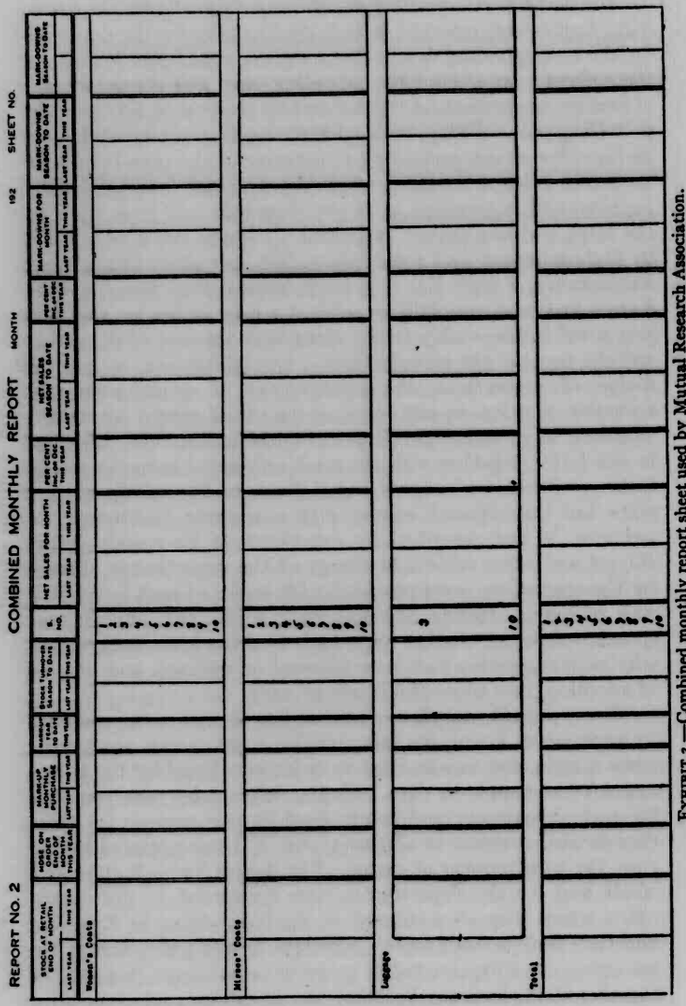

Exhibit 3.—Combined monthly report sheet used by Mutual Research Association.

showed the total figures for all the departments which all the stores operated in common, while another showed the total figures for each store. For departments such as luggage, which were not operated by all the stores, the figures from the stores having the department were shown, and the remainder of the particular section of the report was left blank.

Non-merchandise information was exchanged on a monthly basis. Like the monthly merchandise reports, the non-merchandise information was submitted to the central office and there compiled and distributed to all the members. Sales and expenses, actual and budgeted, were listed on the form shown as Exhibit 4. Expenses were classified according to the plan recommended by the Controllers' Congress of the National Retail Dry Goods Association; a separate form was used in reporting the expenses of the cost service departments. Departmental and total store figures for newspaper advertising expense and direct-mail advertising expense, as percentages of sales, were reported monthly by each store for the month and season to date. Similarly, personnel records were exchanged by the stores every month; for each department and for each store as a whole these records reported the following information: net sales for the month, gross number of transactions, average number of salespeople, salespeople's salaries, salespeople's commissions, total wages of salespeople in dollars, wages of salesforce as a percentage of sales for the month and season to date, and customers' returns of merchandise as a percentage of gross sales.

Every season, spring and fall, detailed plans of sales and expenses were sent by each store to the central office, which distributed the figures to all the stores. At the end of the season a report was made which showed the actual results as compared with the planned figures. Every year the owners of the stores held four meetings at which special problems of interest to the owners were discussed; two of the meetings were at member stores, the other two at the central office. Similarly, meetings of the controllers and of the merchandise managers were held for a discussion of problems especially affecting their work. Other problems sometimes were taken up by a few of the member stores, either at meetings or by private letters between owners. Figures for total net gain were not exchanged.

EXHIBIT 4

Monthly Sales and Expense Report Used by Mutual Research Association

EXPENSE REVIEW

Sales Planned $_____ Store No._____

Sales Actual $_____ Month _____

Expense Budget $_____ %_____

	Salaries		Other Expense		Total Expense	
	$	%	$	%	$	%
Administrative						
Executive Office						
Accounting Office						
Credit Office						
General Store						
Total						
Occupancy						
Building & Maintenance						
Light, Heat, & Power						
Total						
Publicity						
Advertising						
Promotion						
Display						
Total						
Buying						
Merchandise Office						
New York Office						
Foreign Offices						
Receiving & Marking						
Total						
Selling						
General Selling						
Delivery						
Total						
Grand Total						

EXHIBIT 4 (*Continued*)

EXPENSE REPORT

Store No. _____

Month _____

NATURAL DIVISIONS

	Total—$	% to Sales
Salaries and Wages		
Rentals		
Advertising		
Taxes		
Interest		
Supplies		
Service Purchased		
Unclassified		
Travelling		
Communication		
Repairs		
Insurance		
Depreciation		
Professional Services		
Total		

EXHIBIT 4 (*Continued*)

COST SERVICE DEPARTMENTS		
Alteration Rooms		
Sales	$____	100%
Salaries	____	____
Other Expense	____	____
Total Expense	____	____
Profit or Loss	____	____
Fur Storage, Repairs, and Insurance		
Sales	____	100%
Salaries	____	____
Other Expense	____	____
Total Expense	____	____
Profit or Loss	____	____
Cleaning and Repairs		
Sales	____	100%
Salaries	____	____
Other Expense	____	____
Total Expense	____	____
Profit or Loss	____	____

The owners of the Robinson Company believed that the current period was one of extensive chain store activity, and that there was a possibility of securing benefits for their store by consolidating the group buying association into a chain organization. The advantages of a strong central organization had been illustrated in their own experience after one of the Robinson Company's buyers had been transferred to the central office of the association. This buyer, because of her experience in the local store, understood the feelings of the individual buyers in the various stores and was able to work with them more effectively than other central buyers had been able to. She had been able to increase the sales effectiveness of the particular departments

EXHIBIT 5.—Robinson Company. Chart of organization, 1928.

of all the stores. The owners believed that she could have been of even more value to the individual departments had the central organization had complete control over the individual stores. By promoting to the central office the buyer who in the ten stores had shown the best results in each department or by bringing some capable person from outside the organization into the central office, they thought that perhaps more effective management could be attained.

The organization of the Robinson Company was as shown in Exhibit 5. The positions of controller and assistant general manager were filled by the same person; the general manager was also the merchandise manager. There were three divisional merchandise managers.

13. BISHOPTHORPE COMPANY

DEPARTMENT STORE—ESTABLISHMENT OF BRANCHES[1]

The Bishopthorpe Company, one of the largest department stores in Chicago, established a branch in Milwaukee on October 1, 1922. The company planned to open branches in other nearby cities beginning May 1, 1923, provided favorable results were shown by the Milwaukee branch during the first six months of its operation. Several of the directors of the company were of the opinion that expansion of sales in the main store beyond a certain point would be likely to result in diminishing returns. In support of the branch-store project it was urged that management expenses and some other indirect charges of the business as a whole might not be increased proportionately to the larger volume of sales. From the standpoint of service, furthermore, it was pointed out that the branch would enable out-of-town customers to make purchases with a minimum of effort, and also might help to secure new customers for the main store.

The branch store in Milwaukee was on the second floor of a building located in the shopping district, and its personnel consisted of a manager and four salespeople. Women's garments constituted the bulk of the sales, coats, suits, dresses, skirts, and waists being carried in stock. In addition, orders were taken from samples for hosiery, underwear, neckwear, novelty jewelry, and other accessories. These goods were sent to customers by mail directly from the Chicago store. The branch advertised regularly in local newspapers.

The outside-selling division of the Bishopthorpe Company was responsible for the management of the Milwaukee branch. The outside-selling division had charge of the mail-order department; the camp department, which specialized in outfits for summer campers; the agencies established in summer resorts; and the college department, which sent sales representatives periodically to women's colleges. Stocks carried at the Milwaukee branch were under the supervision of an executive of the outside-selling division known as the selector. The selector chose garments from the departments of the main store to be consigned to the Milwaukee branch at retail prices. No merchandise was bought especially for the branch store. From piece records and daily sales

[1] See case of Gabler & Company, page 114.

reports the selector was able to keep an exact record of the garments in stock at the branch.

During the first six months the sales of the Milwaukee branch amounted to approximately $85,000, $10,000 in excess of the planned figure. These sales were credited to the departments in the main store which had consigned the goods; likewise, the expenses of the branch were prorated to the consigning departments on the basis of net sales volume. The exact effect of the sales and expenses of the branch on the departments in the main store was not readily apparent, because those sales and expenses constituted only small proportions of the departmental totals. In 1922, net sales of the Bishopthorpe Company amounted to more than $30,000,000. The various items of expense in the Milwaukee branch showed the following ratios to the net sales of the branch:

Salaries of Manager and Salespeople, and Part of the Salaries of the Manager and Selector of the Outside-selling Division	7.3%
Rent	3.9
Advertising	3.6
Travelling	1.4
Communication	0.8
Supplies	0.6
Depreciation of Fixtures	1.2
Insurance	0.3
Miscellaneous	1.5
Total	20.6%

There were some difficulties in the way of determining exactly the amount of net profit shown by the Milwaukee branch. No part of the buying and management expense of the main-store departments consigning merchandise to the branch had been included in the expense of operating the branch, because there appeared to be no basis of proration for these expenses other than a purely arbitrary one.

Buyers in the main-store departments which consigned garments to the Milwaukee branch complained in some cases that they lost sales by not having sufficiently complete stocks. They contended that the selector for the outside-selling division picked the best-selling styles, to the detriment of the remaining stocks. Another source of complaint on the part of these buyers was that unsold garments were returned from the Milwaukee branch in poor condition, or too late in the season to be sold in the main store except by means of substantial price reductions.

Should the Bishopthorpe Company have opened branch stores in other nearby cities?

14. PARKSTONE COMPANY

DEPARTMENT STORE—BRANCH STORE OPERATION

The Parkstone Company operated a department store which sold medium- and high-grade merchandise. The store was located in the shopping district of a large middle-western city; it had total annual sales of approximately $25,000,000 in 1929, and was one of the largest department stores in the city. In 1927 the Parkstone Company had opened a branch store in the city of Blenheim about 50 miles away, with a population of approximately 150,000.

Several years prior to 1927 the publicity department of the Parkstone Company had begun to advertise the company throughout the area lying within 100 miles of the store and in nearby summer resorts and college communities. In following out this advertising policy, the company had opened in the larger resorts and college communities several small specialty shops under the control of the publicity department. The resort shops were open only during the summer, while the others were open throughout the year. Contrary to the company's expectations, these branches became profitable within a few years. In addition, they were instrumental in securing for the main store many new accounts which the company believed it would not otherwise have secured. These new accounts were of two types: those of wealthy residents of the summer resorts and those of students.

In 1927 the company had the opportunity to purchase at a low price a specialty store located in Blenheim. At that time there were four department stores and two other specialty stores in Blenheim. The department stores were larger than the proposed branch, while the specialty stores were smaller. The Parkstone Company held the opinion that total sales of department and specialty stores in Blenheim were relatively low and that the per capita sales of those stores were considerably below those of similar stores in nearby cities about the size of Blenheim. Traffic was heavy between Blenheim and the city where the Parkstone Company was located, and many residents of Blenheim made frequent shopping trips to the larger city. The Parkstone Company had followed a conservative financial policy and had a large cash surplus which it could use for the purchase of the smaller store. The possibility of chain operation of department and specialty stores was being discussed by department store executives in many parts of the country.

The small shops in the college communities and resorts did not carry all lines or complete assortments of the main store's merchandise. The Parkstone Company had decided not to operate any branches within the metropolitan area surrounding the city in which it was located, because it believed that such branches should be large enough to carry a line of merchandise fully representative of that carried by the main store, and that the volume of sales secured by such branches would not be sufficient to insure profitable operation. A large percentage of the sales of metropolitan branches, furthermore, was likely to represent patronage diverted from the main store. New business obtainable at these branches would not justify the necessary outlay, it was thought.

After much deliberation, the executives of the Parkstone Company decided to purchase the specialty shop and to operate it as a branch store, intending to experiment with methods of branch store operation and, if they were successful, to open a chain of such stores. The Blenheim store was placed under the direction of the executive who already had control of the resort and college branches. Although in his operation of the resort and college shops he was responsible only to the publicity manager, for the operation of the new store he was responsible in carrying out his numerous functions to the various operating officials of the company: the merchandise manager, the controller, the service superintendent, and the publicity manager. Merchandise stocked in the branch store was representative of practically all the main store's women's and children's ready-to-wear departments, but not of the men's departments. Most departments in the branch store included merchandise sold in several departments in the main store. The number of styles shown in the branch store, however, was more limited than in the main store; and the average sale was expected to be lower. Prices on similar merchandise were to be the same in the branch store as in the main store.

In general, the organization established to operate this store was parallel to the operating organization of the main store,

all branch accounting and other operations being carried on at the branch. Each department, however, was under the direction of a head of stock rather than of an experienced buyer. The managers of the small branch shops had been allowed to purchase merchandise from the departments of the main store at billed cost plus 10%, the main store departments taking the cash discounts, which on ready-to-wear were usually 8%, and the branches being relieved of any overhead expense which they did not incur directly. The total operating expenses of the small branch stores had been about 20% or 21% of net sales, as contrasted with the figure of over 30% for the main store. The Blenheim branch likewise was to obtain most of its merchandise at cost from the main store, the branch receiving the cash discounts, however, less 2% for express charges and receiving and marking expenses incurred by the main store in handling the merchandise. In general, the Blenheim branch was to place its orders sufficiently in advance to enable the buyers in the main store to secure the required merchandise from the manufacturers instead of taking it from the main store stocks. Merchandise not ordered in advance was to be charged to the Blenheim branch at billed cost.

The buyers in the main store were expected to give the branch special consideration in their plans for purchases and were allowed occasionally to send merchandise to the branch on consignment. When the branch was opened, the buyers in the main store decided what lines the branch should sell and selected the stock. Thereafter, reordering was done by the heads of stock, whose chief duties, however, were those connected with the sale of the merchandise.

This policy of securing merchandise for the branch store proved to be unsatisfactory, and up to the beginning of 1930 the store had operated at a loss. The sales of the branch were so small in comparison with the sales in the main store that the buyers did not give adequate attention to orders for merchandise in the branch store. The total sales for the branch during 1929 amounted to about $1,000,000, as compared with $25,000,000 in the main store for the same year. The officers of the branch store were dissatisfied because most of their merchandise was selected from the stocks on sale in the main store, with the result that frequently the desired assortment of colors and sizes in a selected style could not be obtained. The main store buyers

had been unable, furthermore, to estimate the needs of the branch correctly and so had overstocked it, causing it to take large mark-downs to move the merchandise. In addition, since buyers were held responsible primarily for the operation of their departments in the main store, they hesitated to send to the branch store the items which were selling most rapidly. The branch could not return for credit merchandise which it had purchased from the main store, but it could return consigned goods and could sell merchandise back to the main store if a suitable price was agreed upon.

By the end of 1929 the manager of the branch store had replaced with trained buyers the heads of stock of some of the departments and had found the results of this method of operation much more satisfactory. Consequently he decided to replace the remaining heads of stock with persons having buying ability. These buyers were allowed to purchase from the main store under the same terms as formerly and in addition to purchase directly in the market at New York from the same sources as were patronized by the main store, and on the same terms.

The experience gained in the branch had not convinced the manager that chain operation was impracticable. He concluded, however, that the branch should be allowed to decide how many units to purchase and the price to pay, but that the central office could select the styles and colors. To support his conclusion, he stated that the dresses selected by the group buying association, of which both the main store and the Blenheim branch were members, had proved popular in Blenheim. In purchasing these dresses, the branch store had decided on the number of dresses to order in each price line and style selected by the group buying association.

For the resort and college branches the manager planned a central buying organization, to start operations in the 1930 season. These buyers would order from the main store, as the store managers had done formerly, and would be governed by the main store's experience with current fashions. The managers of the local shops were to be responsible for the sale of this merchandise. The manager was convinced that while in this way a branch manager might not obtain the styles which she particularly liked and to which she would give her best selling effort, nevertheless in general the styles selected would be more popular

and consequently would require less sales effort than if they were purchased by the branch manager.[1]

The manager of the branch store believed that the changes in the buying policy and organization for the Blenheim branch would enable it to reduce its mark-downs and as a result to operate at a profit during 1930 and, moreover, that these principles could be extended and used in a chain of stores of a similar type.

Should the Parkstone Company have approved the changes in branch organization?

Should the company have planned the operation of additional branches similar to that in Blenheim?

15. MARSHALL FIELD & COMPANY, INC.[2]

MANUFACTURER, WHOLESALER, AND RETAILER—DIRECTION OF EXPANSION

The following letter appeared as part of the prospectus issued by Lee, Higginson & Company in connection with the offering of 540,000 shares of common stock of Marshall Field & Company, Inc.

Chicago, February 17, 1930.

Field, Glore & Co.,
Lee, Higginson & Co.

DEAR SIRS:

In connection with your offering of 540,000 shares of Marshall Field & Company Common Stock, we take pleasure in submitting the following information:

History and Business

Marshall Field & Company is the largest organization in the world devoted to the manufacture, importation, and wholesale and retail distribution of dry goods. Founded in 1865 by Marshall Field, it has grown through 65 years of successful operation, largely out of earnings, to its present scope, with activities spreading throughout the world. Records of the business before 1872 were lost in the Chicago Fire of 1871. In every one of the 58 years since then it has earned a substantial profit. The present Company was incorporated in Illinois in 1901.

Aggressive developments in recent years and still in process have rendered the Company's business today more diversified than ever before. Addition of a large retail store on the Pacific Coast and initiation of branch retail stores, both during the past year; acquisition of a group of small stores during the past two years; new manufacturing developments; and construction of the Merchandise Mart in Chicago stand out among these. Satisfactory results attending these steps promise continuation of the successful growth which has marked the institution from its inception.

Retail

The main Retail Store, occupying an entire square block between State, Washington, and Randolph Streets and Wabash Avenue, Chicago, and the Men's Store opposite, has become not so much a business as an institution of Chicago, with world-wide reputation unexcelled by any other retail organization. The Retail Store alone has 175,000 charge accounts. In July, 1929, the Frederick & Nelson Store, Seattle, Wash., was purchased. This is the largest department store in Seattle and one of the most successful on the Pacific Coast. In December, 1923, the Davis Store was acquired, at the opposite end of the Chicago Loop district from the main Retail Store. This addition to the organization of one of the City's great popular-priced stores has justified itself in increasing measure.

During 1929 there were constructed in Evanston and Oak Park, suburbs of Chicago, two branch stores which rank among the most completely equipped department stores in the country. These are branches of the main Retail Store, under the same name and management. Opened only in October and November, 1929, results already have been so satisfactory as to indicate the substantial potentialities of this type of store. In them is being built up an experience capable of further expansion by setting down other stores duplicating this unit type in other suitable communities. In 1928 the Company began the purchase of small stores situated in other cities. These have been added to only after careful study and perfection of organization, and today there are 15 in all, situated in smaller cities of the Middle West. These stores remain under their local names and are directly under management of the wholesale department.

Wholesale

The two large wholesale houses in Chicago and New York have 700 salesmen covering every county of the United States, and have more than 30,000 retail store accounts on their books. The wholesale

[1] A store operating in the East had established branch stores in nearby small cities. Merchandise sold in these stores was selected from the main store by the managers each Monday and shipped to the branch stores in wardrobe trunks. At the end of the week the merchandise which was not selling in the stores was shipped back to the main store in the same trunks. In this way the merchandise was protected so that practically no cleaning or pressing was required to keep it in proper condition for display, and merchandise in the branch stores which was not popular was returned to the main store while it was still in vogue and could be sold without large mark-downs.

[2] This case is based on data obtained wholly from published sources.

department has 18 branch display sales rooms in the larger American cities. It also maintains offices in London, Paris, Japan, China, Switzerland, and other parts of the world, well equipped with staffs of experts to assist their buyers.

Manufacturing

The manufacturing department is represented by 25 mills and numerous factories producing over 60 important lines of quality merchandise distributed through the retail and wholesale organizations. These operations include four large manufacturing communities in North Carolina and southern Virginia. The Company's manufacturing activities as a whole are highly diversified, have shown good profits over many years, and the future is promising.

Merchandise Mart

In May, 1930, the wholesale organization and sales headquarters of the mills and factories will move into new quarters in this building, construction of which was begun in August, 1928. It is the largest business building in the world, with 3,600,000 sq. ft. of gross floor space. Marshall Field & Company will occupy about 50% of the total, their present wholesale, warehouse, and office facilities, exclusive of the retail stores, occupying a combined space elsewhere equivalent to two-thirds that of the entire Merchandise Mart. This is now all in rented quarters. The remainder of the building, rented to others, will contain the sales displays of more than 1,000 leading manufacturers and wholesale distributors of merchandise.

In this building will be consolidated units of the Company's wholesale, warehouse, and manufacturing activities now situated in nine separate locations about the City, which will result in greater efficiency and a considerable saving in operating expense.

Gratifying progress has been made in the rental of the building. In addition to savings of present rentals represented by space to be occupied by Marshall Field & Company, leases have already been made aggregating annual rentals in excess of $850,000 and these should exceed $1,000,000 by completion.

Purpose of Issue

Previously outstanding A and B Stocks have been exchanged for Common Stock of this issue, in simplification of the Company's capital structure. The majority of stock now offered for public subscription represents new financing to reimburse the treasury for expenditures in recent years on acquisitions and construction, and other corporate purposes, the remainder being relinquished by present owners to afford an outside ownership adequate for the establishment of a public market.

Capitalization

(Upon Completion of Present Financing)

Funded Debt:	
5% First Mortgage Serial Gold Bonds, Due Serially June 1, 1932 to June 1, 1949	$18,000,000
4½% Debenture Gold Bonds, Due Serially January 1, 1931 to January 1, 1946	14,875,000
Capital Stock:	
Preferred Stock, 7% Cumulative, Par $100, (Authorized $40,000,000), Issued	31,240,400
Common Stock, No Par Value, (Authorized 2,000,000 Shares), Issued 1,400,000 Shares, Represented by Equity of	52,048,232

Of the unissued 600,000 shares of Common Stock 200,000 shares have been reserved for future sale to employes.

The First Mortgage Bonds, secured by the Merchandise Mart fee and building, have been placed with an insurance company. The Debentures were issued largely for acquisition of the main retail buildings. The Preferred Stock is held by estates and individuals who have been closely connected with the business. The Common Stock is listed upon The Chicago Stock Exchange and application will be made to list upon the New York Stock Exchange.

The Board of Directors will place the Common Stock upon an initial dividend basis of $2.50 per annum, payable quarterly on March 1, June 1, September 1, and December 1, first payment June 1, 1930.

Earnings

Consolidated net sales and net earnings, after interest, taxes, depreciation, and all other charges, as certified by Messrs. Arthur Andersen & Co., Certified Public Accountants, in recent years have been as follows, including profits of subsidiaries from date of acquisition, and after giving effect to a return of 5% on the additional capital provided through the sale of Common Stock over and above the amount applied in the retirement of notes payable, and after deducting estimated additional compensation of management:

Year Ending December 31	Net Sales	Net Profits after All Charges	Preferred Stock Dividend	Balance for Common Stock	Per Share of Common (1,400,000 Shares)
1925	$167,812,600	$ 8,563,377	$2,186,828	$6,376,549	$4.55
1926	172,102,447	9,275,515	2,186,828	7,088,687	5.06
1927	167,110,448	10,252,665	2,186,828	8,065,837	5.76
1928	169,643,018	9,968,569	2,186,828	7,781,741	5.56
1929	179,659,338	9,388,713	2,186,828	7,201,885	5.14
Average, 5 Years	171,265,570	9,489,768	2,186,828	7,302,940	5.21

The Company's accounting policy has been traditionally conservative, an inheritance from the founder of the business. During 1928 and 1929 more than $15,000,000 has been expended for acquisitions and construction. Additions afforded by these investments, as already seen, in very large part have either not yet come into productive operation or did so only in the latter months of 1929. Earnings for these years therefore are without benefit from more than a relatively small portion of this expenditure. During the present year these investments should be in productive operation, contributing a substantial and growing increment to the Company's earning power.

Assets

Real estate and buildings are carried at cost less depreciation and no revaluation of real estate, buildings, and leaseholds has been set up to conform to present-day values. The working capital position, as reflected in the accompanying certified copy of proforma balance sheet as of December 31, 1929, is strong, with current assets of over $80,000,000 (including over $13,000,000 cash), compared with current liabilities of less than $16,000,000. The Company has no bank loans.

Management

It has always been a policy of the Company to recognize and promote ability within its own ranks. As a consequence, management is in the hands of men who have grown up in the business through long years of service. Employes of unusual merit have been permitted to purchase common stock and a substantial amount of stock is so held. After giving effect to the present public offering more than 75% of the remaining common stock is owned by the active management. This policy has attracted employes of more than average ability and has resulted in a pronounced spirit of loyalty, at the same time serving to maintain unimpaired the time-tested policies of the business.

Because of this experienced management and with the recently enlarged and more efficient facilities, the Company should in the future further strengthen its present leading position in the industry.

Very truly yours,

JAMES SIMPSON, Chairman.
JOHN MCKINLAY, President.

Which of the several lines of development undertaken by Marshall Field & Company, Inc., offered the greatest possibilities for future expansion of the retail business, namely, the acquisition of the Davis store, the purchase of the Frederick & Nelson store, the construction of the Evanston and Oak Park branches, or the purchase of small stores in other cities to be managed by the wholesale department?

16. READING COMPANY

GROCERY CHAIN—EXPANSION BY PURCHASE OF ANOTHER CHAIN

On January 1, 1929, the Reading Company was operating approximately three thousand retail grocery stores and meat markets in several middle-western states. The establishment of new stores and the acquisition of several smaller chain grocery companies, which varied in size from a few stores to several hundred, raised the number of stores in operation to approximately 3,800 on January 1, 1930. Sales in 1929 were about $150,000,000. In January, 1930, the company was considering the acquisition of the Hastings Company, which was operating 175 retail grocery stores with sales in 1929 of approximately $4,500,000. Most of the Hastings Company's stores were located in the same cities as the stores of a chain which the Reading Company had acquired in 1929.

The Reading Company stores, including those added in 1929, were located within a radius of 300 miles of the company's central office and warehouse. Executives of the company were undecided whether to add stores outside this area, but they did plan to increase the number of stores within the area. Furthermore, they were undecided whether in the future the number of stores should be increased by the establishment of new stores or by the acquisition of going chain companies. They planned to add meat departments in the stores selling groceries and vegetables only. On January 1, 1930, several hundred of the company's stores were selling both groceries and meat.

It had been the Reading Company's experience that its reputation was at least as high as that of any of the chain companies it had acquired. People residing in a region where the company had stores had become accustomed to large chain grocery companies and, in the opinion of the executives, many were convinced that they could purchase groceries and other food products more cheaply from large chain companies, which possessed great buying power, than from unit stores.

The Reading Company did not substitute its own name for that of an acquired company until the stores of the latter company had been changed so that they were comparable with the Reading Company's other stores. Although the existing names were retained for from six months to a year, the company immediately

upon acquisition of a store placed a small sign on the front of the store indicating that the store was a part of the Reading Company chain.

The Hastings Company, which had been in operation for a number of years, had secured a reputation for reliability among its customers. It sold staple groceries, fruits, and vegetables. Although it had several private brands, the sales of these brands represented only a small portion of the total sales, which had increased less than 10% in 1929 as compared with 1928. In both 1927 and 1928 the gross margin of the Hastings Company had been approximately 19% of sales, and operating expenses had been slightly less than 18%. The Reading Company in the same years had obtained a gross margin of between 21% and 22%, with operating expenses of 18%.

Many of the stores of the Hastings Company had had only small increases in sales during the preceding few years, and a few stores were being operated at a loss. On the whole the locations of the stores seemed satisfactory; fewer than 10% were adjacent to stores which the Reading Company had acquired in 1929. The store managers apparently lacked aggressiveness, but executives of the Reading Company believed that this difficulty could be remedied, inasmuch as the probable causes of this attitude were that the Hastings Company's stores were not on an equal basis with competitors' with respect to merchandise values, that the managers were not instructed in modern methods of store operation, and that the existing layouts of the stores were poor. The Hastings Company had not adopted standard store layouts; in some stores the items which sold the fastest were less accessible to the salespersons than were slower selling items. On the basis of the Reading Company's analysis of the Hastings Company's individual stores, it was estimated that alterations costing on the average $300 per store would be necessary. Such alterations would consist of layout changes, installation of new fixtures, and redecoration of store exteriors and interiors to conform with other Reading Company stores.

In the opinion of the Reading Company executives, the entire existing operating organization of the Hastings Company could be absorbed. With the exception of a few of the highest executives, the Reading Company always had retained the organizations of acquired companies, especially the executives who were engaged actively in the operation of the companies. The executives

believed that it would be necessary eventually to create an organization to be concerned mainly with the supervisory and operating functions of the stores in this district and, therefore, that the existing organization of the Hastings Company should be retained if the company was acquired.

Acquisition of the Hastings Company would not result in any savings in warehousing expenses. Facilities of the Hastings Company were being used to such an extent that only a few additional stores could be served by that company's existing warehouse facilities. The warehouse of the company that already had been acquired in that territory also was serving nearly as many stores as it could. The Reading Company's central warehouse, which was located 100 miles distant, was too far away to permit economical delivery by trucks. The company's experience was that trucks could be used economically only within a radius of 60 miles of the warehouse. It would be necessary to build a new warehouse for the stores in the particular territory within a short time whether or not the Hastings Company was acquired.

The executives of the Reading Company had planned to establish 200 new stores in the same territory within a period of 3 years. There were 3 chain grocery companies already operating in the region covered by the Hastings Company: the Reading Company, with 150 stores; the Ames Company, which was larger than the Reading Company, with 200 stores; and the Hastings Company, with 175 stores. The executives did not know whether that territory could support 200 additional stores, since the other chain companies probably would open new stores also. Inasmuch as the Hastings Company apparently was being managed less efficiently than the Reading Company and the Ames Company, and because it did not have the purchasing power of the other two companies, the Hastings Company presumably would be at a competitive disadvantage. In the opinion of the Reading Company executives, the Hastings Company eventually would be forced out of business if it continued on an independent basis.

When the Reading Company had entered a new territory, it had done so by absorbing existing chain companies whenever possible. Executives of the company knew that, when it established new stores in districts in which other chain companies were operating, a large proportion of the sales made in the new stores represented sales previously made by the units of the other chain companies. Fixtures for a new Reading Company grocery store

cost about $1,500, and the average cost value of the merchandise in stock was approximately $2,500. New stores in districts in which the company already operated stores usually did not secure sufficiently large sales volumes to make them profitable until they had been in operation several months. Since the Ames Company and the Hastings Company apparently were well established in the territory into which the Reading Company proposed to expand and because the Reading Company was a newcomer in this territory, executives of the company anticipated that it would require from 9 to 12 months for individual stores to develop large enough sales volumes to make them profitable.

The Reading Company's methods of acquiring other chain companies always had been by exchanging common stock in the Reading Company for the stock of the acquired companies. When the transaction was completed, the former owners of a company were permitted if they so wished to dispose of the common stock which they had received. Executives of the Reading Company believed that the owners of the Hastings Company would be willing to take Reading Company common stock in exchange for Hastings Company stock. The Reading Company had a sufficient amount of authorized but unissued common stock to exchange for the stock of the Hastings Company, but, since the stock was listed on the New York Stock Exchange, it would be necessary to apply to the Exchange for permission to issue the authorized stock. Executives believed that the permission of the Exchange could be secured.

Executives of the Reading Company considered two methods of arriving at a valuation of the Hastings Company, namely, that of ascertaining the book value of the assets, and that of capitalizing the earning power. The net worth of the Hastings Company was approximately $475,000. Current assets, which consisted almost entirely of merchandise inventories, represented 70% of the company's total assets; goodwill had not been capitalized. The company had showed an average net gain of $60,000 a year for 1928 and 1929. Executives of the Reading Company knew that adjustments would have to be made in computing the operating costs of the Hastings Company to make them comparable with those of the Reading Company; for instance, the Hastings Company had depreciated its fixtures at a lower rate than that used by the Reading Company. The executives estimated that the average adjusted yearly earnings of the Hastings Company were $50,000.

Should the Reading Company have acquired the Hastings Company?

17. SHELBY COMPANY

VARIETY CHAIN—PARTICIPATION IN COMMUNITY ACTIVITIES

During 1929 the residents of a middle-western city in which one of the Shelby Company's stores was located undertook two community campaigns, one to finance the construction of a toll bridge and the other to finance the construction of a hotel. The Shelby Company was asked to purchase preferred stocks in both projects. Sales of the store in 1928 had been approximately $300,000.

The Shelby Company operated approximately 225 variety stores throughout the United States. Although antagonism toward the Shelby Company had not manifested itself in the city concerned, the executives of the company knew that there was strong prejudice in some sections of the country toward chain store companies. Such prejudice had led to bills being proposed in various state legislatures to check the growth of chain companies. There were many reasons for this resentment toward chain stores. For instance, a chain store managed by someone who had not been a resident of the city where this store was located might displace the store of an independent merchant who had been identified with the city for many years. Local store managers of some chain companies, furthermore, were not permitted to contribute to any community object without securing authorization from the central office. Such procedure involved delay; and, since the executives in the central office frequently were unaware of conditions in particular localities, they often refused permission to participate. The most common complaint against chain companies was that the profits of their stores were taken out of the communities where the stores operated.

The Shelby Company encouraged its store managers to participate in community activities. The company was a member of the local Chambers of Commerce of the cities in which its stores were located, as well as of the Chamber of Commerce of the United States. The store managers were permitted to join social-commercial organizations if they so desired. In one executive's opinion, the

greatest difficulty in the way of Shelby Company store managers becoming closely affiliated with community activities was the fact that promotion usually involved their transfer to larger stores in other cities.

Each Shelby Company store manager was permitted at his own discretion to distribute approximately 0.03% of his store's annual sales volume among public charities such as community chests, hospitals, the Red Cross, and other objects with a city-wide appeal. No money could be given for factional or denominational objects. Subscriptions of sums in excess of this quota or for other than charitable objects had to have the approval of the district manager.

The city which proposed to build the bridge had a population of approximately 40,000 and served a trading area with an additional population of about 35,000. The proposed bridge would open up a new trading area with a population of approximately 25,000. The estimated cost of constructing the bridge was $1,500,000, of which 75% was to be secured from the sale of bonds and 25% from the sale of preferred stock to citizens and business firms of the city. Through the manager of the local store the Shelby Company was asked to purchase $2,000 of the preferred stock. The project had met with a good response in the city, and at the time when the Shelby Company store manager referred the request to the district manager practically all the persons and companies that had been approached had participated. In the opinion of the Shelby Company district manager, it was doubtful whether the preferred stock ever would pay dividends.

A short time later, after the bridge project had been completed, another community campaign was started with the purpose of financing the construction of a high-grade hotel in the city. Although the city had several hotels, none of them were well managed. The estimated cost of the proposed hotel was $500,000. Of this amount $200,000 was to be secured from the sale of bonds in the open market and the remainder from sales of preferred stock to residents and business firms in the city. This stock could be purchased in units of from $100 to $1,000. The district manager believed that the hotel probably would pay small dividends within a few years. This campaign also seemed assured of success; and the store manager thought that the company should participate, inasmuch as almost all the other firms in the city had done so.

What action should the Shelby Company have taken regarding participation in the bridge and hotel projects?

18. TRAYMAN COMPANY

UNIT GROCERY STORE—JOINING ANTI-CHAIN STORE CAMPAIGN

Early in 1930 Mr. Trayman, who owned and operated a unit grocery store under the name of the Trayman Grocery Company in a middle-western city, was interviewed by a committee representing several independent retail merchants in the city with a view to organizing a local Merchants' Minute Men association. The primary purpose of this association was to counteract the growth of chain store organizations by appealing to consumers to patronize unit stores.

The Trayman Grocery Company had been established in 1879 by Mr. Trayman's father. In 1923, sales of the company had been over $100,000. Mr. Trayman was regarded as one of the city's most influential citizens. He had served for several years as president of a commercial organization comprising independent retail institutions, banks, and manufacturing companies; he was a director in one of the city's four banks, and a director of the local community chest organization.

In 1924 the personnel of the Trayman Grocery Company included Mr. Trayman, his son, a bookkeeper, three clerks, and a delivery boy, who spent a portion of his time in the store. The company owned one delivery truck; and, although it made regular deliveries only once daily, Mr. Trayman always had accepted orders for immediate delivery. In 1923, delivery expenses were slightly greater than 3% of net sales. Charge sales were a substantial proportion of the company's total sales. Although the company at times had been required to carry accounts of customers for several months, especially during strikes in nearby coal mines, losses from unpaid debts never had exceeded 0.5% of net sales.

The city in which the company was located had an estimated population in 1924 of 8,000, of whom more than 90% were native-born whites. There were seven churches, a public library, a community hospital, and four banks in the city. The chief products of the city and the surrounding district were coal,

agricultural products, and agricultural implements. In 1929 the estimated population was 13,000. There had been little change in the characteristics of the population.

In 1924 there had been only two chain grocery stores in the city, both operated by a chain company with 50 stores in that section of the state. An organization operating more than 1,000 stores had acquired that chain company in 1924, and during the succeeding years had established additional stores in the city. Two other chain grocery companies also had opened stores in the city, and by the end of 1929 there were 16 chain grocery stores in operation. The chain stores sold for cash only, and none offered regular delivery service.

With the increase in the number of chain stores, price competition was intensified. Although Mr. Trayman believed that the chain companies themselves were more concerned with competition from other chains than with that from unit stores, his sales had declined more than one-third in the period since 1923. Mr. Trayman had studied closely the merchandising methods of the chain companies and had made an attempt to adapt to his own store such methods as might be applicable. Although he recognized the truth of the claim made by chain grocery companies that quantity purchasing enabled them to buy at lower prices than unit stores, he believed that the public ascribed greater economies to quantity purchasing than actually existed. He had observed that the chains, with the intention of attracting customers, frequently employed "loss leaders," that is, items on which the chains placed mark-ups lower than the margin required to cover operating costs. The items used as loss leaders usually were staples or nationally advertised products for which the usual retail prices were commonly known; on products less generally known, such as those sold under a chain company's own brand, Mr. Trayman believed that the chain companies placed high margins to cover the losses sustained on loss leaders.

The Merchants' Minute Men Association had been started by a Mr. Henderson in Shreveport, Louisiana, during the last half of 1929. In June, 1929, a Shreveport merchant had requested Mr. Henderson, who operated a private radio broadcasting station, to grant him permission to broadcast a speech on the alleged evils of the chain store movement. Mr. Henderson consented and upon hearing the speech became so enthusiastic that he immediately assumed leadership in a campaign to combat the

growth of chain companies. The number of persons who listened to Mr. Henderson's broadcast was not known but undoubtedly was large, because the vitriolic character of Mr. Henderson's speeches had aroused great interest. At the end of 1929, Mr. Henderson was reputed to be receiving 2,000 letters a day from listeners. He was forced to employ 20 persons to handle his mail, and during the year a telegraph company installed a special station to care for his business.

In order to meet the cost of operating his radio station, which at the end of 1929 was being used almost exclusively in the campaign against chain store companies, Mr. Henderson organized the Merchants' Minute Men. According to his plans, local associations of independent merchants, bankers, and others were to be organized to meet local problems. These local associations would be affiliated with one another through Mr. Henderson. Of the membership fee, the size of which would be determined by each local association, $12 per member was to be sent to Mr. Henderson to compensate him for his work. Individuals could become members by mailing the fee directly to Mr. Henderson. At the end of 1929 there were between 4,000 and 5,000 members of the Merchants' Minute Men. At the same time Mr. Henderson, also with the apparent intention of meeting the costs of operating his radio station, began to sell coffee for $1 a pound. The coffee was packaged under the name "Hello World," and on the package appeared a picture of Mr. Henderson. Estimated sales of Hello World coffee, early in 1930, were 1,500 pounds daily.

Members of the committee that approached Mr. Trayman stated that Mr. Henderson's radio campaign was counteracting the consumer belief that chain companies sold all merchandise at comparatively low prices. They proposed, in addition to giving Mr. Henderson their support, to institute from a local station a series of radio talks designed primarily to show why citizens of the city should support locally-owned institutions. The following were some of the appeals by which the committee proposed to enlist the interest of various classes of citizens:

To the farmer: "Your products are purchased by the local independent merchants and not by the local chain stores, yet you patronize the chain stores."

To the banker: "Is the small balance maintained by the chain stores profitable? If the independent merchants are forced out of business by chain stores, how can you expect to lend any money to the independent stores?"

To the miner: "Will chain stores extend credit to you when you are on strike as the locally-owned stores have done?"

To the real estate owner: "If you rent a site to a chain store you help to force a locally-owned merchant out of business and make it impossible for the local merchant to retain the home he owns."

To the doctor, dentist, and lawyer: "How much business do chain stores give you in comparison with that obtained from local merchants?"

Should Mr. Trayman have joined the Merchants' Minute Men?

19. GABRIEL COMPANY

VARIETY CHAIN—MEETING ANTI-CHAIN STORE AGITATION

Early in 1930 executives of the Gabriel Company, operating a chain of 425 stores selling low-price variety merchandise, were perturbed by the rapid growth of anti-chain agitation in the southern and middle-western sections of the United States. The antagonists of chain stores had succeeded in arousing public resentment against chains, and the Gabriel Company was uncertain whether to take steps to counteract this agitation.

Executives of the Gabriel Company believed that its policy as to the community responsibilities of its stores was as liberal as that of any other chain store organization. The company was a member of the local chambers of commerce in the cities in which it had stores. Although promotion of store managers usually resulted in transfer to other communities, the company encouraged its store managers to participate in community activities. In addition, each store manager was permitted to contribute 0.04% of the annual net sales of his store to community charities. Total sales of the Gabriel Company in 1929 had been approximately $95,000,000.

While a degree of antagonism toward chain stores had existed for several years and bills which the chains considered discriminatory in character had been introduced in the legislatures of several states, greater activity was manifest during 1929 than in previous years. In that year 63 bills likely to impede the growth of chain store organizations were introduced in 25 state legislatures. Generally the bills provided for taxing chain store companies on each store operated, the amount of the tax per store increasing

with the number of stores in each chain. Thus a law passed by the Indiana legislature imposed the following taxes: $1 per store for the first 4 stores, $25 per store for the next 5 stores, $50 per store for the next 10 stores, $75 per store for the next 30 stores, and $150 per store for each store above 49. In Nebraska a different method of opposing chain stores was contained in a proposed law which established penalties for any organization that sold identical merchandise at different prices in different sections of the state. Of the 63 bills proposed during 1929, 60 either were defeated in the legislatures or were vetoed by state executives. In three states, however, the bills were enacted into law. Early in 1930 a Federal court declared one of these laws unconstitutional. The other two had been declared constitutional in state courts, but the National Chain Store Association and the companies concerned planned to appeal to the Federal courts.

Other manifestations of anti-chain store agitation were visible in the activities of Mr. Henderson of Shreveport, Louisiana. Mr. Henderson devoted practically all the time of his radio broadcasting station to the delivery of tirades against chain store organizations. An association called the Merchants' Minute Men, with numerous local branches, supplemented the endeavors of Mr. Henderson to cause a widespread boycott of chain stores, especially those operating in more than one state. At the end of 1929 there were between 4,000 and 5,000 members of the Merchants' Minute Men; and Mr. Henderson stated that local associations had been formed in Iowa, Illinois, Kansas, Missouri, Kentucky, Tennessee, North Dakota, South Dakota, and all the southern states.

Early in 1930, chain grocery companies operating stores in a Michigan city found that sales volume in those stores had declined more than 50% apparently as a result of a local campaign of independent merchants against chain organizations. The Federation of Nebraska Retailers, with a membership of approximately 1,200, also announced early in 1930 that it intended to use both printed material and radio broadcasting in an attempt to divert the patronage of housewives in various communities from chain stores to independent stores.

While the attacks on chain organizations during 1929 and early in 1930 had centered on chain grocery companies, executives of the Gabriel Company had reason to believe that the persons leading the movement planned to extend their opposition to all types of

chain organizations. Little had been done by chain companies to provide for concerted action against the propaganda of the anti-chain agitators, and many persons connected with chain store organizations seemed to expect that the hostile movement would soon die out.

What policy should the Gabriel Company have adopted with reference to anti-chain store activities?

20. SHEPLEY COMPANY

GROCERY CHAIN—VOLUNTARY AND COOPERATIVE FORM OF ORGANIZATION

In 1916 the Shepley Company, a wholesale grocery firm, established a chain of grocery stores in the city in which its central office was located. This chain, the Shepley Chain Stores, in general did not compete with the independent grocers to whom the Shepley Company sold at wholesale. A majority of these independent stores were located in other cities and towns; within the city the Shepley Company endeavored to locate its chain units at a distance from its independent customers.

The operating results of the chain were highly satisfactory to the Shepley Company. Recognizing its own success in the chain store field, therefore, and noting the growth of competing chains, the Shepley Company determined in 1920 to strengthen its independent customers with a view both to helping them meet chain store competition and to insuring itself against loss of retail outlets. Accordingly it established a voluntary chain, called Mutual Grocers.

The company charged no fees to the grocers joining this voluntary chain. The Shepley Company agreed to carry all supervisory and administrative expenses for the chain. Every independent retailer who entered the Mutual Grocers chain contracted to buy all his merchandise from the Shepley Company; and in turn the Shepley Company agreed to sell to him at prices as low as those charged its wholly-owned chain. The company estimated that, while its regular wholesale price list allowed it a mark-up of about 12.5% of the wholesale price, its chain price list allowed a mark-up of only 7.5%. The Shepley Company sold various lines of merchandise to members of the Mutual Grocers chain

under the Mutual Grocers brand and to its own stores under the Shepley brand. The members agreed to abide by the decisions of a majority of members, to remodel the fronts of their stores in accordance with the standard adopted, to make proper displays of merchandise, to cooperate with the other stores, and to maintain their stores strictly on a cash and carry plan, except when specific clauses to the contrary were inserted in the contract.

The Shepley Company agreed to furnish supervision over the operations of the stores; to send men to remodel stores, although the particular members were required to bear the expense of the remodeling; and to aid in the display and advertising of merchandise. Member stores were to elect an executive committee which would decide what merchandise should be advertised and promoted. The stores were to resemble a wholly-owned chain both in appearance and in service. Advertising was to be done in common, under the name Mutual Grocers; and advertising expenses were to be distributed among members as a percentage charge based on the sales of the stores. The Shepley Company agreed to assist stores in setting up accounting records, but each store was to keep its own records by its own system. If a member refused to keep his store in order or to cooperate with the other members of the chain, he was to be expelled from membership in the chain, although the Shepley Company might continue to sell him merchandise, other than Mutual Grocers or Shepley brands, at regular wholesale prices.

The Shepley Chain Stores sold groceries and fresh fruits and vegetables, but they did not operate meat markets. Most of the stores were of the one-man type, although some managers had part-time or full-time assistants. The stores were inspected daily by supervisors from the central office, and the managers made out daily reports. All records were kept at the central office. Merchandise was charged to the stores at cost and retail, but all other store records of merchandise transactions were kept at retail. Physical inventories were taken four times a year by representatives from the central office, but not always at intervals of three months. Depreciation on equipment was charged at the rate of 1% a month. All the direct expenses were charged to individual stores, and a charge of 2.5% of sales was made against each store to cover administrative expenses. Each manager was paid a salary of from $25 to $35 a week, and in addition he received a bonus of 30% of the net profit of his store if the gross margin

was over 14% and average weekly sales were less than $700, 35% of the net profit if the gross margin was over 14% and the average weekly sales were between $700 and $1,000, and 40% of the net profit if the gross margin was over 14% and the average weekly sales were over $1,000. The bonus was paid following each inventory period.

In 1925 the Shepley Company discovered that several members of the voluntary chain were in financial difficulties and decided to aid them by entering into a cooperative ownership arrangement with them. The following year the company determined to experiment with this cooperative method in its wholly-owned chain. By 1929 the executives of the Shepley Company were convinced of the value of the cooperative method in operating the wholly-owned stores, and decided to place all the former wholly-owned stores on that basis.

The cooperative stores were operated in general similarly to the wholly-owned stores except that the manager of a cooperative store had a financial interest in it and the central control was not so close. Cooperative stores that formerly had been members of the Shepley Chain Stores continued under the same name, while those that formerly had belonged to the Mutual Grocers Chain continued under that name. The capital required in operating a store averaged $2,100. If the manager of a store with average weekly sales of over $1,000 invested one-third of the required capital, he received 70% of the net profits of the store, while in a smaller store he received 75%. If he invested two-thirds of the capital, he received 80% of the net profits in either a large or a small store. Out of his share of the net profit, however, he was expected to pay any assistants he employed. The manager was not paid a salary; but, if he desired, the company advanced a set amount to him each week. This amount was considered a loan and was deducted from the manager's share of the profits at the end of each inventory period. In case a net loss was incurred, the manager was required to bear his share of the loss; if he was unwilling to do so, if the loss was very large, or if the manager violated the provisions of the contract, the Shepley Company could sell the store to another owner-manager, paying the former owner-manager only the net amount due him. A manager was allowed to become part owner in as many stores as the Shepley Company believed him capable of operating. In December, 1929, each of four managers had part ownership in five stores.

While daily supervision had been made of the stores when they were members of the wholly-owned chain, weekly supervision was all that the cooperative stores received. Accounting records were kept in the central office for the cooperative stores as they had been for the wholly-owned chain stores, but reports were required only once a week. Each store was allowed to have an account in a nearby bank. The manager paid by check all store expenses, the cost of all merchandise purchased, and at the end of each inventory period the company's share of the profits. While this practice of the Shepley Company tied up more cash than would have been necessary with one central account, the company was satisfied that the amount involved was not excessive and that the goodwill secured in local communities more than offset any loss of interest. Furthermore, although a charge of 2.5% of net sales was no longer levied against each store for administrative expenses, supervisory and accounting costs were so reduced as to be practically offset by the advertising allowances received from grocery manufacturers. In 1928 the cooperative chain included 60 stores that had been members of the Mutual Grocers, with total sales of $748,000 and a net profit of $3,900, and 150 stores that had been members of the Shepley Chain Stores, with sales of $2,910,000 and net profits of $70,200. The Shepley Company also was operating 200 stores as members of the wholly-owned chain, with sales of $4,022,000 and net profits of $17,300. The company had no records of the operations of the other 900 Mutual Grocers stores.

Comparative figures for sales, gross margin, expenses, and profits for ten of the stores operated originally as wholly-owned chain stores and subsequently as cooperative stores were as shown in Exhibit 1.

EXHIBIT 1

SHEPLEY COMPANY

Comparative Figures for Sales, Gross Margin, Expenses, and Profits of Ten Stores When Operated as Members of Owned Chain and of Cooperative Chain
(Net Sales = 100%)

	Store 1		Store 2		Store 3		Store 4		Store 5	
	As Owned Store	As Co-operative Store	As Owned Store	As Co-operative Store	As Owned Store	As Co-operative Store	As Owned Store	As Co-operative Store	As Owned Store	As Co-operative Store
Beginning of Period Covered	May 13, 1928	May 30, 1929	Oct. 5, 1928	Sept. 18, 1929	Apr. 21, 1926	May 5, 1927	June 7, 1928	May 9, 1929	July 6, 1928	May 21, 1929
Length of Period (in Weeks)	25⅚	20½	7½	12⅛	11½	9½	13½	10⅔	12½	16⅝
Net Sales	$29,332	$22,157	$2,391	$5,158	$13,394	$11,714	$5,038	$4,107	$11,157	$14,720
Average Weekly Sales	$ 1,135	$ 1,081	$ 319	$ 424	$ 1,165	$ 1,233	$ 378	$ 385	$ 905	$ 874
Gross Margin	16.89 %	15.37 %‡	15.39 %	17.35 %	17.73 %	17.43 %	17.95 %	16.96 %	19.13 %	19.24 %
Expenses	9.50 %	3.57 %	13.13 %	3.53 %	6.19 %	4.45 %	16.76 %	7.09 %	10.59 %	2.83 %
Operating Profit§	7.39 %	11.80 %	2.26 %	13.82 %	11.54 %	12.98 %	1.19 %	9.87 %	8.54 %	16.41 %
Salaries and Wages†	$ 1,569	.....	$188	.....	$509	.....	$492	.....	$599	.....
Manager's Bonus or Share of Profit	$ 573	$ 1,831	.....	$535	$485	$ 1,217	.....	$304	$236	$ 1,691
Net Profit, or Company's Share of Profit	$ 860	$ 785	$ 6*	$178‖	$727	$ 304	$ 66*	$101	$438	$ 725

* Figures shown in red.
† Included in expenses.
‡ Drop in gross margin caused by price war with competing store.
§ Operating profit, before any charge for administrative expenses.
‖ New manager, under cooperative system.

EXHIBIT 1 (*Continued*)

	Store 6		Store 7		Store 8		Store 9		Store 10	
	As Owned Store	As Co-operative Store	As Owned Store	As Co-operative Store	As Owned Store	As Co-operative Store	As Owned Store	As Co-operative Store	As Owned Store	As Co-operative Store
Beginning of Period Covered	May 30, 1928	May 27, 1929	June 8, 1928	June 21, 1929	July 20, 1928	July 10, 1929	June 2, 1928	Apr. 20, 1929	Feb. 18, 1928	Jan. 1, 1929
Length of Period (in Weeks)	11⅔	15½	8⅛	15½	11⅝	11½	19½	16	11⅝	15
Net Sales	$4,896	$6,131	$5,360	$ 8,292	$5,511	$4,916	$10,415	$12,760	$3,920	$11,056
Average Weekly Sales	$ 420	$ 400	$ 656	$ 535	$ 466	$ 427	$ 534	$ 798	$ 331	$ 737
Gross Margin	16.39 %	17.31 %	19.60 %	17.14 %	18.93 %	17.82 %	17.42 %	18.30 %	15.62 %	18.23 %
Expenses	14.88 %	6.06 %	12.86 %	7.43 %	10.37 %	4.29 %	11.12 %	3.12 %	18.20 %	4.57 %
Operating Profit§	1.51 %	11.25 %	6.74 %	9.71 %	8.56 %	13.53 %	6.30 %	15.18 %	2.58 %	13.66 %
Salaries and Wages†	$391	.....	$310	.....	$373	.....	$652	.....	$339	.....
Manager's Bonus or Share of Profit	.....	$517	$ 68	$604	$100	$499	$119	$ 1,453	.....	$ 1,132
Net Profit, or Company's Share of Profit	$ 48*	$173	$159	$201	$234	$166	$277	$484	$199*	$378‖

* Figures shown in red.
† Included in expenses.
§ Operating profit, before any charge for administrative expenses.
‖ New manager, under cooperative system.

The company's experience, in general, had been that in all sizes of stores the managers received larger incomes under the cooperative method than under the former method, whereas the company made a smaller net profit in the stores with average sales of over $1,000. The company's net profit in most of the smaller stores, on the other hand, was very materially increased; and the morale of the store managers was much better under the cooperative method. Since each member of the voluntary chain kept his own records and did not report to the company, no figures on the operations of the Mutual Grocers were available for comparison with those of the Shepley Chain Stores. The executives of the Shepley Company knew that some of the members of the Mutual Grocers chain located in rural districts operated general stores rather than grocery stores and that some special plan would have to be worked out for these stores if they were to be absorbed in the cooperative chain. Furthermore, since members of the cooperative chain were controlled more strictly than were members of the voluntary chain, many members of the Mutual Grocers might be unwilling to join the cooperative chain.

Should the Shepley Company have attempted to apply the cooperative system throughout the Mutual Grocers chain?

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